

Economic Assumptions

For the United States and Virginia

Calendar Years 2005, 2006, and 2007

Program Years 2005 and 2006



Virginia Employment Commission
Economic Information Services Division

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Introduction

Again this year, projections appearing in the Virginia Employment Commission's (VEC's) *Economic Assumptions* are based on long-term forecasts produced for the Commonwealth of Virginia by Global Insight (formerly DRI-WEFA) of Lexington, Massachusetts, and Eddystone, Pennsylvania. The VEC shares the Global Insight contract with the Virginia Department of Taxation, the principal instate subscriber.

By using the Virginia Global Insight model, we are able to offer detailed Virginia labor force and employment forecasts on an industry-by-industry basis in our summary tables. To further assist analysis, detailed industry forecasts have been summarized by Calendar Year (CY) and Program Year (PY) by the Economic/Operations Research unit of the Economic Information Services division of the VEC. Also, we can now offer a quarter-by-quarter breakout of the by-industry data for the forecast periods.

In order to make the *Economic Assumptions* available to program planners by December 2004, labor force and employment estimates for 2004 were made using preliminary data before final figures and the normal end-of-the-year benchmark revisions become available in March 2005. Also, in order to have the data available to program planners in time for the program planning cycle, the Global Insight baseline forecast for Virginia labor force and employment projections was used as our basis. This may make the projections in *Economic Assumptions* differ in some details from the final amended official Virginia forecast from the Department of Taxation. It is suggested that as the year wears on that users also consult our quarterly *Virginia Economic Indicators* publication for summary forecast updates.

Copies of this publication may be obtained by calling
Labor Market and Demographic Analysis at (804) 786-8223
or visiting the VEC's Web site at www.VaEmploy.Com.

For additional information or explanation of the contents
of this document, you may contact
Mr. William F. Mezger, Chief Economist
Economic/Operations Research
Economic Information Services Division
Virginia Employment Commission
(804) 786-5669

December 2004



U.S. Forecast Highlights

Last year's forecast led off with, "the recovery has finally begun." One year later, that statement has basically proven true. The U.S. economy has seen recovery in CY 2004, but by most accounts, it has been the weakest recovery cycle in the 60-year post-World War II period.

The recovery cycle was slow starting and has just not seen the usual robust economic performance for a variety of reasons:

- The CY 2001 recession was mild, so there was not as much room to bounce back.
- The CY 2001 recession was mild because the Federal Reserve stepped in, lowering the Fed Funds rate to 1.00 percent, which allowed the important light vehicle and housing sectors to actually expand rather than collapsing as they usually do in recessions. Also, the low interest rates allowed families to gain extra household income by refinancing mortgages.
- A series of events like business scandals, terrorist attacks, rising fuel prices, and the Iraq situation have sapped confidence and strength from the recovery and made consumers and businesses slow to spend and rebuild the economy.
- The CY 2001 recession was different in that when people lost their jobs, there was no job to return to with the recovery because their former employer had either gone out of business or moved offshore, and new jobs were slow to be created as employers could handle the lackluster demand with the existing experienced work force.

- With consumers and businesses "sort of sitting on the sidelines," most of the stimulus to get the economy going again has had to come from the federal government (only about 7 percent of the economy). In addition to the monetary policy of the Federal Reserve discussed above, this has been in the form of fiscal policy which included spending for the Iraq and Afghanistan situations and, most importantly, the 2003 Income Tax Reform Act which gave tax rebates and tax refunds to individual taxpayers and depreciation credits to businesses in the hopes that they both would spend. This tax stimulus scheme partially worked, except that sharply rising world oil prices in the spring of 2004, right when the tax act was supposed to do the most good, sapped some of its strength. The downside of the tax act was that it, along with the Iraq and Afghanistan situations, proved very costly to the federal treasury, turning a \$237 billion surplus in CY 2000 into a \$412 billion deficit by CY 2004.

CY 2004 in review

- After the best holiday sales in three years in CY 2003, the economy appeared headed for better times with First Quarter 2004 posting 4.5 percent Gross Domestic Product (GDP) gain as 2003 Income Tax Reform Act refunds started to arrive and U.S. job growth finally resumed in March. (GDP is the sum of all the goods and services produced in the U.S. and is the key measure of economic gain or loss in the nation.)
- Second Quarter 2004 looked to be super good with all the tax act refunds



U.S. Forecast Highlights

arriving, but a sudden spike in oil prices, thanks to an uptick in world oil demand, sapped strength from the U.S. economy and only a 3.3 percent GDP gain was realized. The Federal Reserve started to raise the Fed Funds rate from the 40-plus year low of 1.00 percent.

- ▶ Third Quarter 2004 saw steadily rising oil prices, more Fed Funds hikes from the Federal Reserve as it turned its attention to fighting inflation, barbs from the presidential campaign, and devastating Atlantic Coast hurricanes, but the GDP gain was still 4.0 percent.



- ▶ Fourth Quarter numbers will not be available until late winter, but GDP growth looks like mid-3 percent. World oil prices peaked at nearly \$56 per barrel in late October, before starting to fall; the holiday season was not quite up to the merchants' expectations; and the Federal Reserve raised the Fed Funds rate to 2.25 percent.

Basic economic number averages for CY 2004

- ▶ GDP growth looks like 4.4 percent, thanks to the 2003 Income Tax Reform Act that was not completely diluted by rising fuel prices.
- ▶ Consumer spending rose 3.7 percent despite rising fuel prices and interest rates. Consumers trying to beat rising financing costs bought 16.8 million light vehicles and housing starts rose to 1.93 million. Depreciation credit-induced business spending increased 10.4 percent.

- ▶ Nonfarm job growth averaged a 1.0 percent gain in CY 2004. Job growth resumed in March and then grew in fits and spells, but nonfarm employment was still 600,000 jobs below the CY 2000 peak. The unemployment rate average was down from 6.0 percent in CY 2003 to 5.5 percent in CY 2004.

The future

The U.S. economy appears to be completing the weakest recovery cycle of the post-World War II period (by just a little bit). Unfortunately, the best growth of this recovery cycle has probably already occurred (induced by the 2003 Income Tax Reform Act in late CY 2003 and CY 2004). Parts of the tax act are expiring and, despite rhetoric to the contrary, the federal government cannot afford to reinstate all of them because of the mounting federal budget deficit. Also, because of the rising deficit, the Federal Reserve now feels it must turn its attention away from stimulating the economy towards combating inflation. The forecast sees the economy sliding to an unspectacular (but not really too shabby) mid-3 percent growth track for the remainder of the forecast period.

Outlook for CY 2005

- ▶ GDP growth for CY 2005 is expected to average 3.6 percent with the first two quarters stronger than the last two. Consumer spending will grow 3.1 percent and business spending will be up 9.4 percent.
- ▶ Job growth will be playing catch-up with some big states finally seeing job gains. Nonfarm employment will spurt ahead by 1.7 percent and the jobless rate will fall to 5.3 percent (both figures will be the best of the forecast period).
- ▶ Higher financing costs will have more impact on housing starts of 1.82 million than on light vehicle sales of 16.9 million.
- ▶ The Fed Funds rate will reach 3.50 percent by year's end.

Outlook for CY 2006

- ▶ The economy will have throttled back to 3.3 percent GDP growth with 3.0 percent consumer spending gain and 7.0 percent business spending increase.

U.S. Forecast Highlights

- Job growth will be 1.4 percent, not quite enough to keep the unemployment rate from drifting back up to 5.4 percent.
- Light vehicle sales will increase to 17.1 million while housing starts slow to 1.70 million.
- Year's end will see a 4.00 percent Fed Funds rate.

Outlook for CY 2007

The economy is slogging along at the trend line with 3.3 percent GDP gain, a 2.9 percent consumer spending rise, and a 5.5 percent business spending increase. Job growth is only 1.1 percent and unemployment is stuck at 5.4 percent. Light vehicle sales of 17.4 million and housing starts of 1.67 million are recorded. The Fed Funds rate is 4.50 percent by year's end.

The baseline forecast has a 60 percent probability.

Major assumptions

- A big federal deficit and a falling dollar have increased inflation fears, so the Federal Reserve has shifted from stimulating economic growth to fighting inflation. The Fed Funds rate will rise from 2.25 percent at the end of CY 2004 to 4.50 percent by the end of CY 2007.
- Because of the large federal deficit built up by the 2003 Income Tax Reform Act, the Iraq and Afghanistan situations, beefed up defense and security, and South Asia disaster relief, the federal government will have to raise taxes, rhetoric to the contrary, be it through the Alternative Minimum Tax, a national sales
- U.S. nonfarm job growth is expected to be 1.7 percent in CY 2005 (the best of the forecast period as job growth resumes in some big states), 1.4 percent in CY 2006, and 1.1 percent in CY 2007. The national unemployment rate falls to 5.3 percent in CY 2005, then slower job growth and new entrants to the labor force move the jobless rate back to 5.4 percent for CY 2006 and CY 2007.
- The weaker dollar will help U.S. exports and make imported goods more expensive here, but the U.S. current account balance will remain close to \$700 billion negative for the entire forecast period.
- Rising interest rates will curtail new housing starts from 1.93 million in CY 2004 to 1.67 million by CY 2007, but will have virtually no impact on light vehicle sales which are expected to expand from 16.8 million in CY 2004 to 17.4 million in CY 2007.
- World oil prices should not create the problems for this year's forecast that they did last year. After peaking at nearly \$56 per barrel in late October 2004 because of world demand and supply problems, world oil prices should fall to \$43 per barrel in CY 2005, \$36 per barrel in CY 2006, and \$35 per barrel in CY 2007.

Forecast alternatives

The **higher growth alternative** has recovery feeding on itself due to better productivity, profits, and export sales and lower oil prices, and GDP growth is around 4 percent each year (probability 20 percent).

The **lower growth alternative** has high oil prices, a falling dollar, and too accommodative monetary and fiscal policies causing a serious acceleration of inflation. To combat the inflation, the Federal Reserve slams on the brakes, pushing the Fed Funds rate to 7.00 percent by the end of CY 2006. This destroys confidence in the economy, and GDP growth trails off to a stagnant less than 2.0 percent rate, but the economy does not sink completely into recession (probability 20 percent).



Forecast Analysis

Last year the forecast led off with the statement that “the recovery has finally begun.” One year later that statement has basically proven true, but there have been some disappointments. In CY 2004, we have had recovery in the U.S. economy—in fact, the U.S. economy has recovered better than just about any other economy in the world—but the current recovery, now over three years after the March-to-November 2001 recession ended, has been by most accounts the weakest recovery of the 60-year post-World War II period. In the past, post-World War II recoveries have been characterized by really strong growth in the first eighteen months to two years after the recession ended. This recovery cycle was slow in starting and has just not seen that kind of robust performance for a variety of reasons.

- First off, the CY 2001 recession was milder than the recessions in the 1970s, 1980s, and 1990s, being more like the 1950s and 1960s recessions, so there was not as much room to bounce back.
- The major reason the CY 2001 recession was mild was that when it was clear to the Federal Reserve that a recession had started in the U.S.; and in the period of consternation over the devastating September 11, 2001, terrorist attacks, the Federal Reserve stepped to the U.S. economy’s rescue and lowered the Fed Funds rate, and in turn most interest rates, to 40- plus year lows. As a result of the 1.00 percent Fed Funds rate, the two big-ticket consumer purchases vital to the U.S. economy’s health—motor vehicle and housing—that usually turn sour at the first signs of recession, sailed right on through CY 2001, CY 2002, CY 2003, and CY 2004 without missing a beat. In fact, not only

did these major sectors of the U.S. economy not have a recession, they have had boom times. The low-cost financing allowed vehicle producers to easily sell profitable, high-content sport utility vehicles and fancy trucks through rebates and special financing incentives, giving four years of 16 million plus light vehicle sales. The manufacturers could virtually give purchasers the financing because of the low cost of money, if the consumer would just buy the highly profitable vehicle. The housing market also boomed, with new housing starts actually increasing from 1.60 million units in CY 2001 to 1.93 million units in CY 2004. Even people who didn’t buy a new vehicle or house benefited. As they refinanced their old higher-cost mortgages at the new lower rates, they in effect substantially increased their incomes as money that used to go for the high mortgage payments could now be used for other purchases and expenses.

- Unlike in other recoveries, there were a whole series of events—like business and accounting scandals in CY 2002; an overstocking of computer products for Y2K that kept business purchasers out of the market for three years; the “fear and hassle of flying” after the September 11, 2001, terrorist attacks that devastated the traditional airline industry; the frequently elevated national terrorist alert levels; and sharply rising fuel prices—in CY 2003 and CY 2004 that have sapped strength from the economy. All of the above things have diverted consumers’ and businesses’ attention and made them reluctant to spend and invest in rebuilding the economy.



Forecast Analysis

- ▶ Probably the most disconcerting event of all to the public's attention has been the Iraq war in CY 2003 and its aftermath. Although the war quickly was announced won in May 2003, the level of violence in Iraq has escalated with far more casualties in the post-war peacekeeping period than during the actual war itself. Many regular military and national guard units have already served more than one tour of duty there and likely will serve more tours there before the situation that has been very costly to the U.S. economy in manpower, materials, and the significantly inflated national debt is resolved. (Virginia's economy, on the other hand, has significantly benefited from the war with its many military bases, defense contractors, and military supply and transport firms.)
- ▶ The CY 2001 recession was unlike recessions prior to 1990 in that most of the workers laid off this time were separated from firms that either went out of business or left the country. Therefore, with the recovery, there is no job for the workers to return to. (In previous recessions, many laid-off workers were recalled to their old jobs when the economy improved, orders came in, and production resumed.) As a result, the U.S. unemployment rate rose from 4 percent in CY 2000 to just over 6 percent in CY 2003, and in CY 2004 is still 5.5 percent. To make matters worse, there have been relatively few new jobs created in this up-cycle because:
 - ▶ Productivity, with an aging but very experienced labor force aided by computer technology, has been very high (over 4 percent productivity growth after CY 2001); and with only a lackluster increase in demand for goods and services, this light demand could easily be met by the existing workforce—thus there was no need to hire additional workers.
 - ▶ The hiring of additional workers with soaring health insurance and rising other benefit expenses can be very costly to employers.
 - ▶ Today, there are relatively few businesses (especially in labor-intensive industries) willing to locate large new production facilities in the U.S. Even when a new manufacturing facility is built, it is usually highly automated and offers relatively few new jobs for the large capital investment involved. Usually

there are only enough workers to monitor the robots who actually produce the goods.

For the above reasons, we have had the so-called “jobless recovery” for much of this up economic cycle. It has only been in CY 2004 when Gross Domestic Product (GDP) growth finally was above a sustained 3.5 percent level that some new jobs have been created; but even then, some months have seen a lot less job creation than others, and U.S. job growth for CY 2004 appears to average only a 1.0 percent rate of gain. (Gross Domestic Product is the sum of all the goods and services produced in the U.S. economy and is the key measure of economic gain or loss in the nation.) What goes around comes around, as without good job growth producing extra incomes, GDP cannot grow but so fast.



photo by Staff Sgt. Jonathan C. Knauth, U.S. Marine Corp.

- ▶ Another reason for the thus far below-average rate of growth has been that this recovery has been largely government-induced rather than driven by consumers and businesses who to date have only been willing to buy and invest so much. Government, of the three major divisions of the economy [consumers (71 percent), businesses (11 percent), and government (18 percent)], has been the main division trying to get the ball rolling. Most of this input has come from the federal government subsector (about 7 percent of GDP) as state and local governments have had lack of revenue problems stemming from the last recession. Federal government is the only government subsector that can legally borrow very much money, and it has substantially increased the national debt to try to get the economic ball rolling. In order to induce a stronger recovery, the President proposed and Congress passed the 2003 Income Tax Reform Act, the purpose of

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which was by lowering consumers and businesses income taxes that both major sectors of the economy would spend more, causing a faster rate of GDP gain. For consumers, the chief provisions of the tax law were a rebate on taxes already paid and child credits at mid-year 2003 and refunds of over-withheld 2003 income taxes in 2004. These did cause blips of GDP gain in Third Quarter 2003 and First and Second quarters of 2004, but the 2004 tax refunds were partially cancelled by the coincidence of sharply rising fuel prices. Businesses received reduced corporate tax rates and were able to much more rapidly depreciate equipment purchases, but this equipment had to be bought before December 31, 2004, when the depreciation credits expired. These credits have boosted business spending by over 10 percent in CY 2004. The biggest problem now with the 2003 Income Tax Reform Act is that most of its impact has already been felt, helping to drive CY 2004 average GDP up by 4.4 percent for good but not spectacular growth, and parts of the act are expiring. Congress has extended the lower individual income tax withholding rates, but most other provisions of the 2003 Income Tax Reform Act are expiring, especially the parts related to businesses.

The other part of the federal fiscal stimulus has been increased spending for the twin wars in Iraq and Afghanistan, homeland security, and a variety of other programs. This spending at the same time as the tax cuts has caused the U.S. budget to go from a \$236.9 billion surplus in CY 2000 to a \$412.3 billion deficit in CY 2004. The rising federal budget deficit is the reason parts of the 2003 Income Tax Reform Act are being allowed to expire.

Of course, on the federal monetary policy side, the Federal Reserve's very low Fed Funds and interest rates have been stimulating the economy since CY 2001 and saved the motor vehicle and housing industries from recession. At mid-year 2004, the Federal Reserve started to raise interest rates, moving towards its "ideal interest rate range" of 3.0 to 4.0 percent.

CY 2004 in review

After the best holiday sales season in three years in CY 2003, the U.S. economy appeared headed for better times.

- First Quarter 2004 grew at a healthy 4.5 percent rate of GDP gain as the first of the income tax refunds resulting from the 2003 Income Tax Reform Act started to arrive. March saw the best job growth numbers in three years as job growth in the U.S. appeared to be resuming.
- It looked like Second Quarter 2004 would be super good as the bulk of the 2003 income tax refund checks created by the 2003 Income Tax Reform Act would be arriving; and with some new jobs being added, consumers would have extra money and be in such a good mood that they would readily spend and spend.



Unfortunately, a new villain, capable of seriously sapping strength from the domestic economy, appeared on the scene in the form of sharply higher world energy prices.

Fuel prices started to rise at the end of CY 2003 during the colder-than-usual 2003-2004 winter. At first, the spike in prices was thought to be temporary, stemming from the OPEC oil cartel trying to get more profits for its crude oil and continued labor unrest in the Venezuelan oil fields.

As winter 2003-2004 turned into spring, oil prices on world markets spiked higher and higher. The price of unleaded regular gasoline spiked to \$2.00 per gallon in many places in the U.S. just before Memorial Day signaled the start of the summer driving season. By

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late October, prices on the world oil market reached a new all-time high of nearly \$56 per barrel.

This surge in world oil prices results from a confluence of fundamental shifts in the petroleum markets and short-term fears about oil supply disruptions. Increased growth in the U.S. economy since mid-2003 created more demand for oil and the world's two former "bicycle economies," China and India, are now buying motor vehicles at a record pace. Also, fears of terrorist attacks on Mid-East production facilities and political turmoil in major oil producers like Venezuela, Nigeria, and Russia cast uncertainties on the world oil supply.

The high oil prices and "off and on" job gain lowered Second Quarter 2004 GDP growth to only 3.3 percent and Federal Reserve chairman Greenspan said the U.S. economy had hit "something of a soft patch." Late in the second quarter, however, the Federal Reserve, figuring inflation was becoming more of a threat to the economy than low growth, started to increase the Fed Funds rate. The June increase was 0.25 basis points to 1.25 percent.

- ▶ Third Quarter 2004 in addition to high oil prices had to contend with three devastating tropical storms on the East Coast which hit Florida especially hard. The presidential candidates traded barbs about the economy, the war, and homeland security. The Federal Reserve raised the Fed Funds rate two more times in increments of 0.25 basis points, bringing the rate to 1.75 percent. With all of this going on, the economy posted a 4.0 percent annual rate of GDP gain.
- ▶ Fourth Quarter 2004 GDP numbers will not be available until mid-First Quarter 2005. The presidential election was held in November with the incumbent, President Bush, defeating the challenger, Senator John Kerry of Massachusetts. There was rebuilding from the third quarter hurricanes. The situation in Iraq seemed to get bloodier and bloodier at year's end, leading up to Iraqi elections in January 2005. World oil prices fell to around \$42 per barrel in December after peaking at nearly \$56 per barrel in late October, and gasoline prices dropped \$.25 – \$.30 per gallon from their peak. The holiday retail season was generally disappointing with high-end and internet retailers generally doing better than lower-priced retailers whose customers' incomes were still feeling the impact of high fuel

prices. As we go to press, it looks like retail sales will be about 3.5 percent above last year. Some retailers are hoping year-end sales events will help. The Federal Reserve raised the Fed Funds rate twice more in November and December, ending the year with the Fed Funds rate at 2.25 percent. Fourth Quarter GDP growth now looks slightly weaker than the third quarter at around 3.6 percent. On December 26, 2004, earthquakes and tidal waves created one of the worst natural disasters the world has ever seen in the Indian Ocean area of South Asia. U.S. aid is promised as the casualty and damage total mounts.



photo by Petty Officer 2nd class Philip A. McDaniel, U.S. Navy

Basic economic number averages for CY 2004

Basic economic number averages for CY 2004 should turn out as follows:

- ▶ Economic growth in CY 2004 should average 4.4 percent GDP gain because of individual income tax refunds early in the year, a spike in business spending to take advantage of the soon-to-expire depreciation allowances, consumers spending for vehicle and housing before interest rates rise more, and a slowly recovering job market.
- ▶ Consumer spending by the 94.5 percent of the labor force that is employed was up 3.7 percent. Interest rates that started rising at mid-year goaded consumers into buying 16.8 million light vehicles and actually boosted new home starts to 1.93 million as consumers rushed to take advantage of low-cost financing before it was gone. Businesses taking advantage of depreciation tax credits before they expire, increased their spending by 10.4 percent.

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Federal government spending rose 4.8 percent to pay for the twin Iraq and Afghanistan situations, for beefed up homeland security, and to pay for all the hurricane losses. Spending by revenue-strapped state and local governments only rose 0.5 percent.

- ▶ The Federal Reserve raised the Fed Funds rate five times from June to December going from 1.00 percent to 2.25 percent.
- ▶ Consumer prices rose 2.7 percent in CY 2004 with rising fuel prices being the chief villain.
- ▶ Nonagricultural employment saw positive job growth in the U.S. resume in March 2004, but it was spotty, coming in fits and spells all year. Some months were fairly good (March, April, and October) while others were a disappointment (May, June, and November). Nevertheless, the U.S. nonagricultural payroll employment did register 1.0 percent average job growth for CY 2004 compared to no growth in CY 2001 and 1.1 percent and 0.3 percent job losses in CY 2002 and CY 2003, respectively. Even by the end of CY 2004, U.S. nonfarm employment was still 600,000 jobs below the all-time peak in CY 2000. Unemployment after peaking at 6.3 percent at mid-year CY 2003 receded only slightly, averaging 6.0 percent in CY 2003 and 5.5 percent in CY 2004.

The future

At this point, the U.S. economy appears to be completing the weakest recovery of the post-World War II period with GDP growth just a little less than normal for a recovery—held back just a bit by still good productivity from the existing workforce, offshoring of labor-intensive jobs, rising fringe benefit costs, higher fuel prices, and the costs of maintaining the military situations in Iraq and Afghanistan. Unfortunately, the best growth in the economy has probably already occurred late in CY 2003 and in CY 2004, thanks to fiscal policy in the form of tax cuts from the 2003 Income Tax Reform Act and monetary policy from the Federal Reserve in the form of rock-bottom, 40-plus year low interest rates from late CY 2001 to mid-year CY 2004. Parts of the 2003 Income Tax Reform Act are expiring and, despite rhetoric to the contrary, with the rising budget deficit the federal government really cannot afford to pass legislation to reinstate all of these tax breaks. Interest rates are rising slowly because the Federal Reserve feels, now that the

economy has had some recovery, the Fed must turn its attention to the longer-range goal of combating inflation brought on in part by the rising federal deficit. The forecast sees the economy moving to an unspectacular (but not really too shabby) mid-3 percent growth track for the remainder of the forecast period. The economy will still face the drags of the Iraq and Afghanistan situations, high fuel prices, further offshoring of jobs, and a big trade imbalance, but the federal budget deficit will improve with time. Mid-3 percent economic growth after all is right on target with the long-range growth track the Federal Reserve thinks best for the U.S. economy. The current up-cycle may in the long run turn out to be about as good as the late 1980s recovery period but not have quite the sparkle of the late 1990s boom.

Outlook for CY 2005

- ▶ GDP growth for CY 2005 is expected to average 3.6 percent which will not be as good as CY 2004 growth, but will be by a slight amount the best of the three-year forecast period. The first two quarters of the year will be slightly stronger than the last two quarters as GDP growth settles into a leisurely pace just over 3 percent.
- ▶ Consumer spending (the biggest portion of GDP) will grow 3.1 percent as fuel prices take a little smaller portion of consumers' income, but rising interest rates make big-ticket purchases a little more expensive. Business spending at 9.4 percent will be a little less robust as some business tax credits have expired. Federal government spending grows 3.2 percent as Iraq and Afghanistan expenses continue and aid is sent to tidal wave victims in South Asia, but domestic expenditures are reined



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in somewhat as the Administration and Congress want to appear fiscally responsible. With less pinched budgets, state and local government spending should rise 1.7 percent. Exports will begin being a contributor to GDP growth rather than the negative force they have been for the last decade.

- ▶ Nonagricultural employment, always a lagging economic indicator, will finally do some catching up as employers find that they need to do some new hiring to meet the already expanded demand for goods and services which can no longer be met with just the existing workforce. Average national job growth will be 1.7 percent, the best of the forecast period, as the economies of some very big states like California and New York finally catch up to everybody else. Numbers for these states will look almost as good as those for Virginia, and Florida will continue rebuilding from the hurricanes. Because of this belated job spurt, the unemployment rate will come down to average 5.3 percent, also the best of the forecast period. Notice the jobless rate never gets completely back to the 5.0 percent “full employment” level in the forecast period.
- ▶ Light vehicle sales stay high at 16.9 million units as consumers cannot resist all the new world-class models recently introduced. Continued high gasoline prices cause cars to gain slightly on light trucks and sport utility vehicles in the product mix. New housing starts will start to slide to average 1.82 million units in CY 2005 as mortgage rates rise. Most everyone has already refinanced their mortgage while rates were low.
- ▶ The Federal Reserve’s monetary policy will gradually tighten with the Fed Funds rate reaching 3.50 percent by the end of CY 2005. Consumer prices should rise 2.1 percent.
- ▶ The economy is expected to slow slightly in CY 2005 as the best growth is already behind us, but a major slump, or another recession, is not expected.

Outlook for CY 2006

- ▶ The recovery will have pretty much throttled back to the long-run growth trend line with a GDP gain of 3.3 percent.
- ▶ Consumer spending at a 3.0 percent growth rate will remain fairly resilient, thanks to the improved job
- ▶ After the growth spurt in CY 2005 when some of the lagging large states caught up with the rest of the country, job gains at a 1.4 percent rate are recorded. U.S. companies will continue to use offshoring to cut costs and remain competitive. As a result, unemployment will worsen slightly to 5.4 percent. Job growth is not quite fast enough to absorb all the people entering the labor force.
- ▶ New light vehicle sales, buoyed by slightly downward fuel prices, will be an outstanding 17.1 million units. The rising financing costs will slow new housing starts to 1.70 million units.
- ▶ The Federal Reserve will gradually tighten on interest rates with the Fed Funds rate up to 4.00 percent by the end of CY 2006, and long-term interest rates will also rise gradually. There are potential concerns about the size of the U.S. budget deficit. Consumer prices should rise 1.6 percent.

market, wage growth, and still relatively low interest rates. Business spending buoyed by good corporate profits and good cash flow will see 7.0 percent growth. Federal government spending will gain 1.4 percent as fiscal responsibility is exhibited to control the national debt level, but Iraq and Afghanistan continue to be costly drains on the U.S. economy. State and local government spending grows at a 2.1 percent rate.



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Outlook for CY 2007

By CY 2007, the economy is slogging along at the trend line with 3.3 percent GDP growth. Consumer spending is expected to be up 2.9 percent and business spending is still gaining at a 5.5 percent rate. Federal government spending is down to a 0.7 percent rate of increase to reduce the budget deficit, and state and local spending is advancing at 1.8 percent. Job growth is back to 1.1 percent with the national unemployment rate stuck at 5.4 percent, still shy of the “full employment” level of 5.0 percent. Light vehicle sales will be an outstanding 17.4 million units while new housing starts are down to 1.67 million units. The Fed Funds rate levels out around 4.50 percent by year’s end.

**The baseline forecast has a
60 percent probability.**

In summary

Recovery from the relatively mild CY 2001 recession seemed to take forever to materialize, being held off by business and stock market scandals that destroyed the public’s confidence, terrorist attacks, waiting for the war in Iraq and the war itself to be over, and productivity and offshoring holding back the number of jobs created. When recovery finally did come in late CY 2003 and CY 2004 as the result of 40-plus year-low interest rates and tax relief in the form of the 2003 Income Tax Reform Act, it was the weakest of all the previous post-World War II recovery periods with some strength being sapped by rising fuel costs and the costly situations in Iraq and Afghanistan. The bad news is CY 2004 likely will be the best growth year of the decade. The good news is that although growth will slacken slightly in the forecast period, it really will not be that much worse, reverting to a classic mid-3 percent growth trend line that some economists think is the best long-run course for the U.S. economy. While economic growth for the next three years will likely be unspectacular, a major recession is not foreseen either.



Major Forecast Assumptions

The preceding forecast is based on the following:

Monetary policy

The Federal Reserve stepped in after the CY 2001 recession developed and the September 11, 2001, terrorist attacks occurred and in late CY 2001 lowered the Fed Funds rate to only 1.00 percent, the lowest rate in 40-plus years.

As a result of the Federal Reserve's action, the economy was bolstered, the CY 2001 recession was relatively mild, and the key light vehicle and housing sectors escaped recession altogether. By June 2004, with the economy strengthening, the Federal Reserve started to increase the Fed Funds rate, raising it in five 0.25 basis points increments to 2.25 percent by December 2004.



The Federal Reserve now likely will raise the Fed Funds rate five times in CY 2005, ending the year with the Fed Funds rate reaching 3.50 percent. More tightening is expected to occur in CY 2006 with the Fed Funds rate being up to 4.00 percent at year's end, and long-term interest rates will also be rising by then. By the end of CY 2007, the Fed Funds rate will likely level out at 4.50 percent. The gradual tightening of monetary conditions is consistent with the Federal Reserve's goal of reaching a "neutral" or "equilibrium" level of the Fed Funds rate by late CY 2005 or early CY 2006. The Federal

Reserve's potential concerns about the size of the U.S. budget deficit and the falling dollar will be tempered by a moderate inflation rate and the purchase of U.S. Treasury securities by Asian central banks in order to prevent their currencies from appreciating too much in relation to the dollar. While the Federal Reserve's goal is not to defend the dollar, the currency's decline does have an impact on policy. The weaker dollar increases both growth and inflation, so the Federal Reserve no longer needs to stimulate growth with very low interest rates. Gradually rising interest rates will result in manageable decreases in both consumer spending and the housing market.

The Fed Funds rate is expected to average 2.97 percent in CY 2005, 3.60 percent in CY 2006, and 4.07 percent in CY 2007. Interest rates for 3-month T-bills should be 2.96 percent in CY 2005, 3.41 percent in CY 2006, and 3.76 percent in CY 2007. These interest rates will mean borrowers will have to pay more for the use of funds, but people with certificates of deposit will get a little more return from their investments. Consumer prices will be moderately up, averaging increases of 2.1 percent in CY 2005, 1.6 percent in CY 2006, and 1.8 percent in CY 2007.

Fiscal policy

Because of the booming economy and cuts in federal expenditures, the federal budget posted surpluses in CY 1998, CY 1999, CY 2000, and CY 2001 with the biggest surplus of \$236.9 billion occurring in CY 2000. Things changed after that with the CY 2001 recession, the lackluster recovery in CY 2002 and CY 2003, the wars in Iraq and Afghanistan, the increase in homeland security after September 11,

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2001, and the 2003 tax cuts all putting such a strain on the federal budget that deficits of \$157.8 billion in CY 2002, \$377.1 billion in CY 2003, and \$412.3 billion in CY 2004 have occurred. Fiscal policy in the form of the 2003 Income Tax Reform Act—which lowered income tax schedules for individuals, gave refunds of over-withheld 2003 taxes, and accelerated depreciation credits on equipment purchases made by businesses—was one of the chief measures used to jog the sluggish economy into recovery in late CY 2003 and CY 2004. The problem is as CY 2004 ends that efforts to end the recession although largely successful have helped increase the federal deficit to \$412.3 billion dollars. The U.S. economy has had a modest recovery in late CY 2003 and CY 2004, but economic growth now appears to be ready to slightly slacken again in CY 2005 as some provisions of the 2003 Income Tax Reform Act expire and such a big federal deficit has been created that the federal government cannot afford to reinstate all the tax cuts plus pay for the Iraq and Afghanistan situations, pay for homeland security, maintain federal domestic programs, and pay the rising interest costs on the mounting federal debt. Also, there will be pressure for the U.S. government to aid South Asian countries affected by the massive December 26, 2004, tidal waves and to reform Social Security. Before the CY 2004 election, Congress extended most of the tax cuts for individuals in the 2003 Income Tax Reform Act, but most business tax cuts expired December 31, 2004, and are not likely to be reinstated. This means many federal taxes and user fees *are going to have to rise*. One way the federal government can do this is as incomes rise, more and more households will be subject to the Alternative Minimum Tax (AMT), which requires high income taxpayers to pay larger amounts. (This is sort of a backdoor approach to getting more revenues.) Also, there is the possibility of tax reforms that would simplify taxes (such as a national sales tax), but would collect more revenues. At any rate, the federal budget deficits are expected to be around beyond the forecast period, still being \$323.4 billion in CY 2005, \$278.1 billion in CY 2006, and \$264.8 billion in CY 2007. Federal government spending is expected to increase 3.2 percent in CY 2005, 1.4 percent in CY 2006, and 0.7 percent in CY 2007, still adding to GDP growth, but by smaller amounts. The recovered economy will provide more revenues to state and local governments in the form of renewed economic growth and inflated real estate values, but taxpayers will fight increased assessments. State and local governments will have enough revenues to fill needed vacancies to

serve an expanding population and to attend to education and infrastructure needs. State and local government spending should expand 1.7 percent in CY 2005, 2.1 percent in CY 2006, and 1.8 percent in CY 2007.



Employment and incomes

National nonagricultural payroll employment (the job count) was off for three years, showing no growth in CY 2001 and losses of 1.1 percent in CY 2002 and 0.3 percent in CY 2003 on average. Job growth resumed in March 2004, but it was spotty, coming in fits and spells all year. Some months were fairly good (March, April, and October) while others were a disappointment (May, June, and November). Nevertheless, U.S. nonagricultural payroll employment appears to have registered 1.0 percent average job growth for CY 2004. Even by the end of CY 2004, U.S. nonfarm employment was still about 600,000 jobs below the all-time peak in CY 2000 of 131.8 million jobs.

Employment, being a lagging indicator, usually gets worse after the recession is technically over. Even though the economy starts to grow, there is usually a gap before the resumption of hiring. This time, because of the sluggish GDP growth in CY 2002 and CY 2003, that gap has lasted for over two years. This time also, high productivity, which is usually a good thing, has actually slowed the creation of new jobs. It seems the U.S. economy needs to have GDP growth of about 3.5 percent to create new jobs. Below the above growth level the current mature, super-efficient U.S. labor force that has developed over the last three decades can easily handle the small increase in orders for goods and services without any additional hires being needed. Productivity in the U.S. economy also aided significantly by automation has expanded by 4.3 percent

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in CY 2002, 4.5 percent in CY 2003, and 4.1 percent in CY 2004, thus the so-called “jobless recovery.”

The point has finally been reached where additional workers need to be hired to handle the increased demand, and productivity has already started to slacken. Productivity growth is projected to be good, but not outstanding, at 2.3 percent in CY 2005, 2.2 percent in CY 2006, and 2.5 percent in CY 2007. The forecast is for nonfarm payroll employment in the U.S. to grow by 1.7 percent in CY 2005, 1.4 percent in CY 2006, and 1.1 percent in CY 2007. The CY 2005 job growth spurt to 1.7 percent comes as some very big states like California and New York finally catch up. Their percentage growth numbers will look almost as good as Virginia's, which resumed job growth a good eight months before the nation and has not only gained back the jobs lost in CY 2002, but has also gone on to see 2.4 percent job growth in CY 2004, almost 2½ times the nation's CY 2004 job growth rate. Offshoring will continue to cost the U.S. economy jobs as the pressure on companies to use every possible means of cutting costs in order to maintain their competitive edge continues. Most vulnerable sectors will continue to be manufacturing and call centers. With the labor market expanding again, wage increases are projected to be in the 3.0 percent to 4.0 percent range annually.

The high-wage, high-skilled professional and business services categories will still be where the most and best jobs may be found. The information industry is starting to see job growth again. The trade, leisure and hospitality, finance, and services sectors will need additional workers to meet demand and turnover. The airline industry is still the weakest sector with many airline analysts expecting the demise of one or more major traditional air carriers in CY 2005. Durable goods manufacturing will hold its own, but more losses are likely in nondurables.

The national unemployment rate, also a lagging economic indicator, moved up from a 31-year low of 4.0 percent in CY 2000 to 4.8 percent in CY 2001, 5.8 percent in CY 2002, and 6.0 percent in CY 2003. The unemployment rate peaked at 6.3 percent at mid-CY 2003, then receded to a 5.5 percent average in CY 2004. At year-end CY 2004, the national unemployment rate was at 5.4 percent. The national unemployment rate is expected to recede to average 5.3 percent for CY 2005 as job growth catches up in some big states that have thus far lagged behind. Then, the national unemployment rate is expected to move back to average 5.4 percent in

both CY 2006 and CY 2007 as job growth is not quite fast enough to absorb all the new workers entering the labor force. Notice unemployment nationally is not expected to get back to the 5.0 percent level considered “full employment” any time in the forecast period.

Foreign trade

Again this year, the U.S. economy was the strongest of the world's major economies. Because of the mounting U.S. federal budget deficit and the U.S. buying so much foreign oil, the U.S. dollar continued to weaken against other major world currencies in CY 2004. A weaker dollar means the U.S. has to pay more for imports, thus it will probably buy less; and U.S. goods will be cheaper in world markets, so foreigners can buy more from us. Net exports will help GDP growth rather than being a drag on the U.S. economy as they have been for most of the last decade. The weaker dollar will encourage foreign producers to shift production to the U.S. (In previous periods of a weaker dollar, Japanese car makers set up manufacturing plants in the U.S.) U.S. tourism will also benefit with visits to the U.S. being cheap to foreign travelers while some U.S. citizens will find trips abroad prohibitively expensive and may decide to vacation at home.



Foreign economies will be hit by the dollar's decline in value, both by losing sales in the U.S. and by losing market share to the U.S. throughout the world. Those most hurt will be the weakest, least flexible economies such as the Eurozone and Japan where GDP growth in both is expected to be a minimal 1.5 to 2.0 percent. China will also be hurt, but China

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wants to slow its overheated economy down from the current 9 percent rate of growth anyway.

Even with an improving export market, the U.S. current account trade balance will remain close to \$700 billion negative for the entire forecast period. The U.S. trade deficit is projected to be \$718.2 billion in CY 2005, \$696.4 billion in CY 2006, and \$686.5 billion in CY 2007.

Housing and light vehicles

The very low interest rates of the CY 2001 – CY 2004 period have allowed both housing and motor vehicle sales (which traditionally have collapsed at the first sign of recession) to sail merrily along at record-breaking levels.

Home mortgages have been as low as they were at the start of the post-World War II building boom. This has admitted many first-time buyers to home ownership, especially lower income wage earners and inner-city residents. Just about everyone with higher interest rate mortgages from the last two decades has refinanced at the new lower mortgage rates, giving many families the effect of increased household income at a time when salary increases have been rising only slowly.

Commercial construction has also held up better than usual in the current cycle. In both CY 2003 and CY 2004, weather delays have been much more of a problem for the building industry than lack of demand or lack of financing. Also, a lot of extra building activity was generated by Hurricane Isabel in CY 2003 and the three hurricanes that pounded Florida and the Atlantic Coast in CY 2004. Currently many developers and contractors seem to be trying to lock in still low-rate financing for projects that will take several years to complete before financing costs go up more. Housing starts were an outstanding 1.93 million units in CY 2004, and engineering and architectural firms report more projects than they can handle.

As the Federal Reserve turns its attention away from boosting the economy and to fighting inflation and gradually raises the Fed Funds rate, mortgage costs will rise, but still be reasonable by historic standards. As mortgage rates climb, more renters will decide to defer home ownership, and existing homeowners will feel locked into their new present low-rate mortgages. The forecast is for new housing starts to trail off with the rising mortgage rates to 1.82 million units in CY 2005, 1.70 million units in CY 2006, and 1.67 million units in



CY 2007. As we went to press, November national housing starts were sharply lower, indicating this trend is underway as mortgage rates rise. Even so, the 1.67 million housing starts projected by CY 2007 (the weakest forecast year) is still better than the 1.60 million starts in CY 2001.

Light vehicle sales remain strong at 16.8 million units in CY 2004, buoyed by rebates and financing incentives instituted after the September 11, 2001, terrorist attacks to avoid a sales slump. Every time the manufacturers try to remove the rebates and incentives and sales start to slump, the rebates and incentives come right back. With over half of light vehicle sales now in the very profitable high-content pickup trucks and sport utility vehicles (again this year, the Ford F-series pickup truck—which incidentally happens to be produced at the Norfolk, Virginia, Ford plant—was the U.S.'s best-selling vehicle), the manufacturers have pretty much decided they make enough on the fancy pickup or sport utility vehicle that they can give the customer the low-rate financing, if he will just keep on buying vehicles.

Higher fuel prices in CY 2004 did cause cars to slightly gain market share against pickups and sport utility vehicles. Also, an outstanding array of new car models from domestic manufacturers, especially Daimler/Chrysler and General Motors, has allowed them to gain slight market share against the imports. The moderate climb in interest rates (which is less noticeable in car payments than in mortgages) is expected to have less impact on light vehicle sales than housing sales with rising employment and incomes offsetting the slightly higher interest rates. Very strong sales are projected

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throughout the forecast period. They are expected to be 16.9 million units in CY 2005, 17.1 million units in CY 2006, and 17.4 million units in CY 2007.

Oil and energy

In last year's *Economic Assumptions* we stated that "oil prices could prove to be a downside wild card." That certainly proved to be the case.

World oil prices, which had been high (above \$30 per barrel) during the CY 2003 Iraq war, turned up again during the colder-than-usual CY 2003 – CY 2004 U.S. winter heating season. At first, it was thought the rise was due to the OPEC oil cartel trying to get more profit by slightly withholding supply and dislocations from political unrest in oil-producing countries such as Venezuela, Nigeria, and Russia.

As winter CY 2003 – CY 2004 turned into spring, oil prices on world markets spiked higher and higher. The price of unleaded regular gasoline spiked to \$2.00 per gallon in many places in the U.S. just before Memorial Day signaled the start of the summer driving season. By late October, prices on the world oil market reached a new all-time high of nearly \$56 per barrel.

This surge in world oil prices resulted from a confluence of fundamental shifts in petroleum markets and short-term fears about oil supply disruptions:

- Increased growth in the U.S. economy since mid-CY 2003 has created more demand for oil.
- The over 50 percent of trucks and sport utility vehicles in the U.S. sales mix for new light vehicles is not the most fuel-efficient combination.
- With all the manufacturing jobs that have gone to China and the call center jobs that have gone to India, these two former "bicycle economies" are now able to buy motor vehicles at a record pace, substantially increasing world demand for petroleum products. [To make matters worse, the vehicles being produced for these emerging Asian markets by the world's major vehicle producers, in order to keep costs low in these new markets, are generally much less fuel efficient than the present U.S. vehicle fleet. (The Buick car is now the best-selling light vehicle in the Chinese market, but the Chinese model Buick is much less fuel efficient than the U.S. model Buick.)]

- There was fear of terrorist attacks on Middle East pipelines and production facilities.
- Hurricanes in the Gulf of Mexico curtailed offshore oil production for several weeks in early fall CY 2004.
- Russia is now the world's largest oil producer, but it just does not have the distribution system in place to get out what it can produce.

As a result of the above, world oil prices are unlikely to return to the levels U.S. consumers had been accustomed to anytime in the forecast period. Global Insight, the forecasting service that the Virginia Employment Commission and the state of Virginia contract with for our forecast model, estimates the high cost of foreign oil is reducing U.S. GDP growth by as much as 0.8 percent, hitting airlines, truckers, railroads, utilities, and chemicals and certain other types of manufacturers especially hard.

The much higher fuel prices negated part of the expected Second Quarter CY 2004 tax-reform-induced growth spurt. Instead of the anticipated close to 5.0 percent GDP gain for the Second Quarter CY 2004, GDP grew at only 3.3 percent. The remaining CY 2004 quarters saw similar reductions. Merchants who cater to lower income U.S. market segments reported lackluster CY 2004 holiday sales because their customers had to use holiday spending money to pay for fuel.



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As we go to press, world oil prices have come down from the nearly \$56 per barrel peak of late October to about \$42 per barrel and the pump price of gasoline is down by \$.25 – \$.30. Slightly slower GDP growth in Europe and Japan, a so-far mild winter in the U.S., a return of hurricane-damaged offshore Gulf of Mexico oil production, and stepped-up OPEC production have all improved the world oil demand/supply situation. The good news is that U.S. gasoline prices, adjusted for inflation, at the end of CY 2004 are lower and take less of consumers' incomes than they did in the CY 1981 and CY 1990 oil spikes. Consumers seem to be adjusting their lives to current oil price levels.

The forecast is for world oil prices to average \$43 per barrel in CY 2005, \$36 per barrel in CY 2006, and \$35 per barrel in CY 2007. Pump gasoline prices should follow a similar pattern. These prices are better than the CY 2004 peak, but still not back to the \$14 – \$26 per barrel prices of the CY 1997 – CY 2002 period.



Forecast Alternatives

The higher growth alternative has the recovery feeding on itself with the expansion getting better and better (probability 20 percent).

The optimistic scenario assumes no negative repercussions from the weaker dollar and the momentum from the late CY 2003 – CY 2004 recovery builds on itself. Once an economy gets a head of steam, it is difficult to stop as was the situation in the late 1990s. The information/technology-driven boom, which has been building again, continues for several more years, getting stronger and stronger. Productivity and profits are so good the economy grows and grows, diminishing the federal budget deficit and keeping inflation low. In this scenario, economies in the rest of the world also have more growth. Business spending continues strong, even after the depreciation credits go away, in order to buy more productive technology. Oil prices are about \$5 per barrel less than in the baseline forecast as new production capacity comes online. In this scenario GDP growth is around 4 percent annually throughout the forecast period. The U.S. unemployment rate gets down to the 5.0 percent “full employment” level by CY 2007.

Imbalances emerge in the economy with the Federal Reserve over-tightening to stop rising inflation. Growth slows, but the economy does not go into a recession (probability 20 percent).

High oil prices (between \$45 and \$50 per barrel), a falling dollar, a too-long accommodative monetary policy, and too-loose fiscal policy produce a serious acceleration of inflation. The Federal Reserve slams on the brakes, pushing the Fed Funds rate to 4.00 percent by the end of CY 2005 and 7.00 percent by the end of CY 2006. The high oil prices and high interest rates cause consumer confidence to wither. GDP growth drops to 3.0 percent in CY 2005 and below 2.0 percent in CY 2006. The U.S. unemployment rate is back over 6.0 percent by CY 2006 as job growth all but disappears. The Federal Reserve holds on the Fed Funds rate, then backs off a little in CY 2007. In this pessimistic scenario, the economy does not sink into recession, but just mopes along with sub-par growth until things get better after CY 2007. Even under the pessimistic scenario, the economy is strong enough that it could probably still withstand another major shock without sinking completely into recession.

U.S. Forecast Data Summary

| | Percent (except as noted) | | | |
|--|---------------------------|---------|---------|---------|
| | CY 2004 | CY 2005 | CY 2006 | CY 2007 |
| Real GDP | 4.4 | 3.6 | 3.3 | 3.3 |
| Personal Income | 5.4 | 5.2 | 5.7 | 5.6 |
| Nonagricultural Employment | 1.0 | 1.7 | 1.4 | 1.1 |
| Unemployment Rate (Levels) | 5.5 | 5.3 | 5.4 | 5.4 |
| Federal Funds Rate (Levels) | 1.35 | 2.97 | 3.60 | 4.07 |
| Interest Rates (Levels) 3-month T-Bill | 1.37 | 2.96 | 3.41 | 3.76 |
| Federal Government Surplus (Billion Dollars) | -412.3 | -323.4 | -278.1 | -264.8 |
| Consumer Spending (Real) | 3.7 | 3.1 | 3.0 | 2.9 |
| Business Investment (Real) | 10.4 | 9.4 | 7.0 | 5.5 |
| Consumer Price Index (CPI-U) | 2.7 | 2.1 | 1.6 | 1.8 |
| Industrial Production | 4.1 | 3.5 | 3.3 | 4.2 |
| Housing Starts (Million Units) | 1.93 | 1.82 | 1.70 | 1.67 |
| Light Vehicle Sales (Million Units) | 16.8 | 16.9 | 17.1 | 17.4 |
| Current Account Balance (Billion Dollars) | -656.1 | -718.2 | -696.4 | -686.5 |

Virginia Forecast

Our projections show that in calendar year (CY) 2004 Virginia's nonagricultural employment registered strong job growth; in fact, Virginia's CY 2004 overall employment/unemployment picture was better than just about any other state. The projected statewide gain for CY 2004 is 84,700 jobs, or a 2.4 percentage point rise from the CY 2003 nonfarm employment average of 3,500,300, to 3,585,000. This was much better than the 6,200, or 0.2 percent, net job increase recorded in CY 2003 when job growth resumed at mid-year. The nonagricultural employment level for CY 2002 was 3,494,100. As CY 2004 draws to a close, Virginia is growing faster on a percentage basis than any of the 13 largest states with nonfarm employment bases greater than 3,000,000. Only several small Rocky Mountain states and Hawaii are experiencing a faster percentage of job creation. Virginia has one of the lowest unemployment rates of all the states with only Hawaii, which is largely influenced by Asian economies, and sometimes Vermont and the Dakotas, having as low as or lower unemployment rates. Virginia currently has about the best combination of good job creation and low unemployment in the country.

The nation created jobs at about a 1.0 percent rate in CY 2004 but national payroll employment is still approximately 600,000 jobs below its CY 2000 peak. By contrast, Virginia created jobs at a 2.4 percent rate in CY 2004 and payroll employment at 3,585,000 is

68,400 jobs, or 2.0 percent, ahead of the CY 2000 job peak of 3,516,600.

Virginia's job growth resurgence has been led by a large (577,500 jobs) and robust (5.2 percent job growth) professional and business services sector, a booming building expansion brought about by low-cost financing, and recovery of the state's important tourist industry after the September 11, 2001, terrorist attacks. Good consumer spending boosted trade employment; and spending for homeland security, defense, and education benefited the total government sector.

Virginia's average labor force and total place-of-residence employment also saw growth in CY 2004. The labor force expanded by 71,700, or 1.9 percent, to a record 3,845,000 and total employment grew 90,300, or 2.5 percent, to 3,710,100. The number of unemployed decreased 18,600, or 12.4 percent, to 134,900. The unemployment rate fell from 4.1 percent in CY 2003 to 3.5 percent in CY 2004. Virginia's 3.5 percent unemployment rate was only 70 percent of the 5.0 percent level generally deemed for all practical purposes to be "full employment," while the national unemployment rate was still 2.0 percentage points higher than the Virginia jobless rate at 5.5 percent.



Nonagricultural employment in Virginia by the NAICS* industry sectors in CY 2004

Total nonagricultural place-of-work employment is expected to average 3,585,000 in CY 2004;

* NOTE: Industry projections are now all based on the North American Industry Classification System (NAICS), which was implemented nationwide by the U.S. Bureau of Labor Statistics, with benchmark revisions in 2003. Industry comparisons are now by the NAICS codes, which replace the Standard Industrial Classification (SIC) codes formerly in use.

this represents an 84,700, or 2.4 percentage point, increase over CY 2003.

A. Industries with rising employment averages in CY 2004.

➤ The large **professional and business services** sector was clearly the job growth leader in CY 2004, providing over one-third (33.9 percent) of the year's job gain and was largely responsible for Virginia growing at a faster pace than any of the twelve other larger states. Over forty percent of the professional and business services growth was concentrated in Northern Virginia, the state's largest metropolitan area, but this industry also saw significant gains in most of the state's other metro areas. The professional and business services industry was where large numbers of new college graduates found employment in CY 2004. Subsectors where much of this growth took place were computer systems software design, engineering and architectural services, scientific and consulting services, management of companies, and professional employment services specialists. A portion of the growth was as a result of these firms contracting with the federal government, especially in Northern Virginia and Hampton Roads, but the bulk of their work is now with the private sector. It was pretty much a return to the boom times of the 1980s and 1990s for this industry in Virginia in CY 2004.

➤ **Wholesale and retail trade** employment added 19,400 jobs for a 3.8 percent gain to a level of 535,500. Good consumer spending this year for motor vehicles and other big-ticket durables has caused trade expansions after this industry experienced two pretty much flat years in CY 2002 and CY 2003. The robust housing market has caused strong demand for appliances and other household items. Building materials dealers benefited from the building boom and also benefited from the sale of materials to both prepare for the several tropical storms and to make repairs after the storms passed.

➤ **Construction** employment bounded ahead by 13,500 jobs, or 6.2 percent, to an all-time high employment level in Virginia of 231,300. The building industry was booming all year in spite of late summer-early fall rains and financing costs starting to rise after mid-year. Actually, rising financing costs seemed to have pushed a lot of projects into being

with developers trying to get ahead of the rising costs. Financing rates are still low, and likely to remain low, by past historic standards. Repairs after several tropical storms also boosted builders' payrolls.

➤ **Total government** job levels were up 9,900, or 1.6 percent, to 648,500. Much of this gain was in local education to meet the needs of a growing school population and to adhere to the mandated "Standards of Learning" requirements. State and local governments were generally feeling a little less



pinched in the budget department as the economy and tax revenues improved and were making some essential hires mainly to replace key personnel lost to turnover and attrition. Civilian employment in the federal subsector increased 1,800, or 1.2 percent, to 149,900 in Virginia, mainly in defense, homeland security, and in the efforts to support and supply the troops in Iraq and Afghanistan. Virginia federal employment is largely centered in the Northern Virginia and Hampton Roads metro areas.

➤ **Private education and health services** employment grew by 7,200, or 2.0 percent, to a total of 376,300 with much of the gain being in the medical, nursing home, and private social services fields. Private schools and colleges also added additional staff in CY 2004.

Virginia Forecast

- **Finance, insurance, and real estate** added 5,400 workers, or 2.9 percent, to a level of 192,700. Just about all sectors of finance and real estate grew with the expanding economy and still favorable interest rates. Even the feared losses in consumer credit card financing turned out to be relatively minimal in CY 2004.
- **Other, or miscellaneous, services**, which are basically personal and repair services and non-profit organizations, increased 5,200, or 2.9 percent, to a total of 186,100. Much of the gain was in the nonprofit grantmakers, which saw contributions improve with the economy.
- **Leisure and hospitality** grew 4,700, or 1.6 percent, to a level of 312,200. This industry generally had the best year since before the 2001 terrorist attacks in spite of record-high gasoline prices. Virginia attractions' nearness to the high-population Northeast gives them an advantage over Florida and other further-away destinations, especially when fuel costs rise. Except for a few attractions in the Northwestern part of the state, most reported increased visitors this year. Food service was the best performer with a number of new restaurants opening.



- **Mine** employment with a 300, or 3.0 percent, gain to the 10,400 level reported an increase for the first time in several years. Virginia mines usually do better when oil prices rise as some industrial customers can easily switch to coal from more expensive petroleum products. Also, the mines are finding they are having to replace an aging workforce that has dwindled in recent years.

- **Transportation, warehousing, and utilities** for the first time in three years did see slight employment gains in CY 2004, being up a net 200, or 0.2 percent, to 118,600. Trucking, shipping, and the ports have now recovered nicely with the economy, but the airlines still have problems which have been made worse by CY 2004's higher fuel costs. Unfortunately, the bulk of Virginia's sizeable airline employment base is concentrated in the more beleaguered traditional higher-cost air carriers that are currently struggling to stay in operation.

B. Industries with declining employment averages in CY 2004

- The new **information** sector continued to not quite hold its own in CY 2004, being off by 500 jobs, or 0.5 percent, from CY 2003 to a level of 100,600. While there were few major cutbacks, rivalry and stiff competition among the various phone service providers continued with slight attrition here and there.
- **Manufacturing** jobs continued to be lost in CY 2004 with employment in this industry at 295,300, declining 9,600, or 3.1 percent. The overall general factory order situation seemed to improve this year, but some sectors still dwindled. Employers in the traditional factory segments of textiles, apparel, and furniture continued to shift production offshore to low-cost third-world countries. Unfortunately, most of the electronics assembly jobs Virginia added in the mid-to-late 1990s have also left due to an unstable world market for computer chips. Even when new plants are built, often with tremendous capital investment, they are so highly automated that they provide a relatively small number of new jobs. The factory loss was divided 5,700, or 4.4 percent, in nondurable goods to a level of 131,700 and 3,800, or 2.3 percent, in durable goods to a level of 163,700. Major factory subsectors losing employment in CY 2004 were textile mills, down 1,300, or 9.3 percent, to 12,600 and furniture factories, down 400, or 0.5 percent, to 19,200. Transportation equipment is one of the few bright spots left in the Virginia manufacturing picture due to continued low interest rates creating a good demand for motor vehicles and vehicle components. Transportation equipment employment

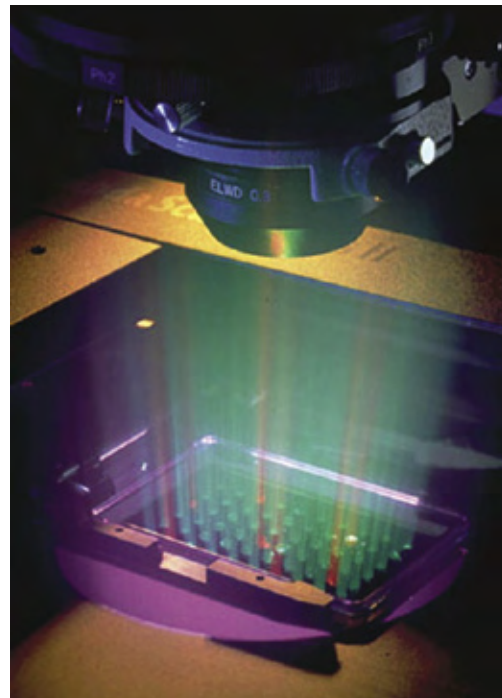
expanded 200, or 0.5 percent, to a level of 39,300. Defense orders also helped this industry in Virginia.

The state's metropolitan areas and most non-metro regions resumed positive job growth in CY 2004

All of the state's metropolitan areas saw job growth return in CY 2004 following the lead of boomy Northern Virginia, which resumed strong job growth in CY 2003, and rock steady Hampton Roads, which recent estimate revisions now show never had a recession in CY 2001 and CY 2002, thanks to bolstered federal defense and homeland security spending. The Richmond-Petersburg area has now turned around with improving state government revenues and has been boosted all along by strong healthcare, education, and retail sectors. The five remaining smaller metro areas have all returned to slightly positive job growth. Rural areas above Interstate 64 have generally done much better than those below Interstate 64, but job growth has resumed almost everywhere except for a few jurisdictions along the North Carolina border.

► **Northern Virginia**, which now has about a third of all the jobs in the state with a nearly 1.3 million nonfarm employment base, saw a return to strong job growth in CY 2003 and then built on this base in CY 2004. Northern Virginia added 45,000 jobs in CY 2004 for a 3.5 percent job gain. Northern Virginia was the engine of Virginia's job growth train throughout the 1980s and 1990s and has clearly resumed this position. The Northern Virginia professional and business services sector has once again led the way for state and even national job growth recovery. These firms in software design, engineering, architecture, research and development, and business management and consulting, clustered in Alexandria, Arlington, Fairfax, and around the Capital beltway have become the nation's and, to some extent, the world's thinkers, innovators, and creators; and they have to do "their thing" before much of the rest of the nation and the world can recover. As always, these firms are undergirded by their contracting with the U.S. federal government, which is why many of them located where they did in the 1960s, 1970s, and 1980s; but contracting with the federal government now constitutes only 30 to 40 percent of their business, and the rest is with customers throughout the world. This sophisticated

range of service-providing enterprises is made up of many innovative, flexible, and ambitious small firms. Most of the people laid off from these firms in the adjustment period of CY 2001 and CY 2002 have now formed their own consulting businesses and are competing for contracts along with their former employers, and all are hiring new technical workers. The region's professional and business services firms, which now employ over 300,000 workers, have added 15,000 high-skill, high-income jobs in CY 2004 for a five percent gain and provide the backbone and catalyst for both the region's and Virginia's job growth resurgence. With this region having one of the



nation's top household and per capita income levels, trade and transportation employment has rebounded with over 7,000 jobs. The region's red hot real estate market never slowed much in CY 2001 and CY 2002, thanks to low-cost financing. Construction surged ahead at close to 5,000 jobs per year, or 6 percent. Two billion dollars' worth of development began in the Rosslyn-Ballston corridor alone this past spring. Development in other areas appears almost as hot. Continued federal government hiring in defense and homeland security along with staffing in local school systems has added 5,000 jobs to government employment. Finally in CY 2004 this region's leisure and hospitality industry, adding over 3,000 jobs, now seems finally recovered from the devastating impacts

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of the September 11, 2001, terrorist attacks and the CY 2002 sniper incidents. Even manufacturing is once again positive with over 1,000 jobs added.

Unemployment in Northern Virginia has been falling all year and by fall 2004 was in the 2.0 percent or lower labor-shortage category. If Northern Virginia were treated as a separate metropolitan area in national statistics instead of a part of the Washington-Baltimore metropolitan area, it would be the lowest unemployment area in the country. Even so, Washington-Baltimore had lower unemployment than any other major U.S. metro area throughout CY 2004.

- **Norfolk-Virginia Beach-Newport News, Virginia/North Carolina**, the state's second-largest metropolitan area, has a nonfarm employment base of almost 750,000. This area, which continued to add jobs right through the CY 2001 and CY 2002 recession years, thanks to stepped-up national defense and security measures, remained on its steady 11,000, or 1.5 percent, growth track in CY 2004. The growth trend continues even with the negative impact of



photo by Petty Officer 1st class Anthony M. Koch, U.S. Navy

deployments of military personnel stationed in the area to Iraq and Afghanistan. The negative impact of the deployments to the local economy is to some extent offset by the fact that much of the supplies to support the military efforts in Iraq and Afghanistan are shipped through the port of Hampton Roads. Both the 100,000-strong professional and business services sector, up 2,000 jobs, and the 60,000-strong manufacturing sector, up 1,000 jobs, benefit from defense and military contracts; and there was growth of 500 in federal civilian government employment, which provides 46,000 jobs locally. The 83,000-

job leisure and hospitality sector added 4,000 jobs in CY 2004. Tourism, long a staple of this area's economy, and even historic attractions seemed to benefit this year from higher gas prices and "fear and hassle of flying" causing travelers from the nearby populous Northeast to vacation at Virginia oceanfront resorts, theme parks, and historic attractions.

Unemployment in Hampton Roads has held right at 4 percent, which is still quite low, considering that the normal turnover of military dependents in this area adds at least 1 percentage point to the jobless rate.

- **Richmond-Petersburg**, the third-largest Virginia metropolitan area, saw a resumption of job growth to the tune of about 9,000 jobs, or 1.5 percent, to its 570,000 nonfarm job base. The private education/health care sector (Richmond is something of a health care and education center for the Southeast) with about 6 percent growth provided half of the region's 2004 job gain. With the better budget situation, state government, the region's largest single employer with 41,000 employment, has resumed limited hiring. Although fears of retrenchment at Capital One, the region's largest private employer, have made media headlines, they have thus far been more than offset by gains in other financial subsectors. New corporate headquarters employment and two new shopping centers opening late in CY 2003 have added to the employment base. The 44,000 manufacturing base has been neutral in CY 2004 after losses in the CY 2001 – CY 2003 period.

Unemployment has drifted just below 4 percent in CY 2004.

- **Roanoke**, Virginia's fourth-largest metropolitan area in size, saw a return to slightly positive job growth in CY 2004, gaining about 1.0 percent. Employment in the region's traditional mainstay industries of trade and transportation, private education and health care, and manufacturing has been basically neutral in CY 2004, after minor losses the two previous years. There was some job growth in the remaining services and support categories.

Unemployment has drifted below 3 percent, making the Roanoke area the third-lowest Virginia metro area, and it has been among the 20-best U.S. metro areas in CY 2004. A factor in Roanoke's recent low unemployment level may be that as



unemployment has improved in Southwest Virginia, Roanoke does not now attract the jobseekers from that region that it did in former years.

- **Lynchburg**'s nonfarm employment level at 100,000 has been largely neutral in CY 2004. Manufacturing and the private colleges have added a few jobs in CY 2004, but trade and services are still soft.

Unemployment has dropped from mid-four percent to mid-three percent with an end to factory layoffs.

- **Charlottesville** has seen occasional minor spurts of growth this year in its dominant university/hospital employment sector and in the industries that support it. The university and the hospital and the industries that support them provide about a quarter of the Charlottesville area's 88,000 nonfarm employment base. After significant layoffs in CY 2003, manufacturing employment has returned to a neutral stance.

Unemployment has improved from 3 percent last year to just above 2 percent this year. In CY 2004, the Charlottesville area has usually been included most months among the ten-best unemployment areas in the U.S. This area was Virginia's second-lowest unemployment area, behind No. 1 Northern Virginia.

- **Danville** has seen nearly 1 percent job growth in CY 2004 in its 44,000 nonfarm employment base. Some growth in most other sectors has more than offset occasional temporary and permanent factory furloughs.

Unemployment remains around 7 percent because of the factory job drain for the highest jobless level of Virginia's current metropolitan areas.

- **Bristol, Virginia**, the state's smallest metropolitan area with only one-fifth of the employment of the much larger Johnson City-Kingsport-Bristol metropolitan area of which it is a part, had stable to slightly positive job growth in CY 2004. Overall there seemed to be fewer factory inventory adjustment furloughs this year.

Unemployment was generally between 4 and 5 percent with the occasional spurt to 6 percent caused by factory furloughs.

Virginia will have three new metropolitan areas in CY 2005—Blacksburg, Harrisonburg, and Winchester—and the Virginia Employment Commission will start publishing limited figures for them in CY 2005.

- **Blacksburg**'s nonfarm employment base, which is heavily influenced by the dominant state educational institutions of Virginia Tech and Radford University, recovered from factory losses at the end of CY 2003 to nearly 2 percent job growth for CY 2004. Education employment and the technology industries located around Virginia Tech are factors in this comeback. **Unemployment** improved from 4 percent to 3 percent as a consequence.
- **Harrisonburg**, another new metro area with a dominant public university employer, James Madison University, saw between 1 and 2 percent job growth until a poultry industry factory closing late this year turned employment growth slightly negative. It seems others in the community have stepped in and are salvaging much of the production and job loss. **Unemployment** is currently 3 percent, up from 2.5 percent last year because of this situation.
- **Winchester** has been adding jobs at a 1.5 percent to 2.0 percent rate in CY 2004, its employment expansion benefiting in part from its proximity to the booming large Northern Virginia metro area. **Unemployment**

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in the Winchester area has fallen from just over 3 percent last year to just over 2 percent in CY 2004.

- The **non-metro balance of the state** was experiencing an overall 2-plus percent growth rate, but some balance of state areas above Interstate 64 were growing faster than that.



Generally, the **Shenandoah Valley, eastern slopes of the Blue Ridge Mountains, Northern Neck, and Eastern Shore** are benefiting from spin-off growth from Northern Virginia. On the other hand, areas along the North Carolina border, like **Martinsville city, Henry County, Patrick County, Emporia city, and Galax city**, were still losing employment especially in the old-line manufacturing industries of textiles, furniture, apparel, and foods. As a consequence, the above-mentioned areas have the highest **unemployment** rates with the Martinsville, Henry, and Patrick labor market areas usually being double digit. The coalfield counties of **Buchanan, Dickenson, Lee, Russell, Tazewell, and Wise**, which for years had the highest unemployment in the state, all now have unemployment rates below 5 percent because of a renewed demand for coal and some new industries moving into this region. **Smyth County** has also experienced new jobs added in CY 2004. **Halifax** and **Mecklenburg** counties have seen unemployment drop below double digit mainly because of few recent new layoffs.

On the other side of the ledger, approximately 25 of Virginia's 134 jurisdictions have recently had labor-shortage classification unemployment rates of 2 percent or less. Rural jurisdictions with

extremely low unemployment rates of late have been **Rappahannock, Madison, Bath, Highland, Middlesex, Bland, Rockbridge, and Augusta** counties and **Lexington city**. (Bath, Highland, and Bland counties, it should be noted, have had high unemployment rates that have reached double-digit level within the past decade.) The Northern Virginia jurisdictions of **Arlington, Fairfax, Loudoun, Clarke, Stafford, and Spotsylvania** counties and **Alexandria, Fairfax, and Manassas Park** cities have usually had very low jobless rates. Counties in other metro areas, or soon-to-be metro areas, with low unemployment rates currently are **Mathews** (Hampton Roads), **Montgomery** (Blacksburg), **James City** (Hampton Roads), **Albemarle** (Charlottesville), **Greene** (Charlottesville), and **Frederick** (Winchester). Cities in other metro areas currently with low unemployment rates are **Poquoson** (Hampton Roads) and **Salem** (Roanoke).

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By the end of CY 2004 Virginia has experienced a more normal recovery than most any other state from the CY 2001 recession and the ensuing job losses in CY 2002. While the national recovery cycle this time around has been the weakest following any post-World War II recession with the national payroll employment level still about 600,000 jobs below the CY 2000 pre-recession peak, Virginia has not only made up the net number of payroll jobs lost during the recession but has gone on to create 68,400 additional jobs. Virginia job growth recovery started in mid-CY 2003 while it was spring 2004 before the nation began to add new jobs. While the national unemployment rate peaked just over 6 percent at mid-year 2003, Virginia's unemployment rate never got above 4.5 percent (still 0.5 percentage point *below* the level considered to be "full employment.") The national unemployment rate is still in the mid-5 percent range whereas Virginia's unemployment rate level at the end of CY 2004 is below 3.5 percent, with only several very small population states such as Vermont, Hawaii, North Dakota, and South Dakota sometimes being as low or lower. Virginia's relatively robust recovery has been brought about by the quick bounceback of Northern Virginia's creative, innovative, and resourceful technology industry employers and the fact Virginia's defense contractors and military supply firms benefit significantly from the ongoing wars in Iraq and Afghanistan and

heightened homeland security levels. While Virginia has added well over 100,000 jobs in its high skilled-high wage professional and business services categories mostly in the metropolitan areas along and above the I-64 corridor, it has also lost more than 40,000 factory jobs in the traditional manufacturing industries of textiles, apparel, furniture, foods, and electronics, which has been especially devastating for smaller communities in the Southside and Southern Piedmont like Martinsville, South Boston, and Clarkesville. These trends are expected to continue into CY 2005 with Virginia probably having seen its best growth spurt in CY 2004 since job growth resumed here almost a year before it resumed in the nation. Virginia will still be expanding as fast, or faster, than the nation in most categories in CY 2005 and CY 2006, but the pace is expected to be more leisurely. Some of the other large states that have not seen much job growth up until now are expected to revive in CY 2005, so some of their numbers may look almost as good as Virginia's where the growth cycle has now been in progress for over a year and a half.

- **Nonagricultural employment** is expected to grow by 62,500 jobs, or 1.7 percent, to 3,647,500 in CY 2005; 53,600 jobs, or 1.5 percent, to 3,701,100 in CY 2006; and 42,700 jobs, or 1.2 percent, to 3,743,800 in CY 2007. Professional and business services undergirded by defense and homeland security will continue to be Virginia's engine of job growth as it has been in the past. Even though financing costs are expected to rise to



more traditional levels, a large amount of building activity is expected to take place in Virginia, further boosted by preparations and renovations for the 400th anniversary of Jamestown in CY 2007. As the Jamestown celebration nears, it should heighten Virginia travel and leisure and hospitality activities. Manufacturing attritions should slow to a trickle with fewer inventory adjustment furloughs, but net factory job growth never resumes in the forecast period. The main concern for the forecast would be the possible demise of one or more traditional air carriers with flight crew and support jobs and gates at the Washington area airports being lost.

- **Professional and business services** continues the backbone of economic growth in Virginia, adding 23,200 jobs, or 4.0 percent, in CY 2005; 17,700 jobs, or 3.0 percent, in CY 2006; and 18,100 jobs, or 2.9 percent, in CY 2007. Virginia established a fundamental base of technological know-how, specialized physical structures, and human skills over the past two decades that should give its professional and business services employers a jump on the rest of the nation as the recovery accelerates. Architectural and engineering firms are busy on new projects before financing costs rise more, and computer programming consultants are preparing the latest wave of software packages. As always, contracting with the federal government is a significant portion of Virginia consulting firms' work. Temporary employment services will be supplying workers for special and temporary needs. Providing highly trained specialty field temporary service professionals to meet many and varying demands is now a big part of this industry. Human resource professionals claim professional and business services in Virginia could expand even faster than it is already doing, if more highly skilled and qualified workers could be found.
- **Construction** employment, which has been very strong for the last two years in spite of adverse wet-weather conditions, is expected to add 10,000 jobs, or 4.3 percent, in CY 2005; 8,500 jobs, or 3.5 percent, in CY 2006; and 3,300 jobs, or 1.3 percent, in CY 2007. There is much work already underway that was rushed into being to get ahead of rising interest rates. Although interest rates are expected to rise steadily, they should still be low by historic standards throughout the forecast period. Many Virginia historic and public facilities are scheduling,

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or have already started, new construction projects or major renovations in preparation for the many visitors Virginia is expecting for the year-long 400th anniversary of Jamestown in CY 2007.

- ▶ **Trade** employment is projected to grow 6,200 jobs, or 1.2 percent, in CY 2005; 4,200 jobs, or 0.8 percent, in CY 2006; and 4,400 jobs, or 0.8 percent, in CY 2007. Merchants will be expanding to serve a growing population, but they will be using all the labor-saving and cost-cutting measures possible in order to stay competitive. Discount and big box retailers will grow, but there will also be the need for specialty and niche marketers. The demands for building materials and home repair supply retailers should remain strong.



- ▶ The **leisure and hospitality** industry is expected to grow by 5,300 jobs, or 1.7 percent, in CY 2005; 4,700 jobs, or 1.5 percent, in CY 2006; and 3,400 jobs, or 1.0 percent, in CY 2007. This industry now appears fully recovered from prior years' terrorist and sniper attacks; and barring any new terrorist attacks, more and more people should be coming to Virginia to participate in the many scheduled events leading up to the two-year-long CY 2007 400th anniversary of Jamestown. Fuel prices appear to have peaked in late CY 2004 and may come down a little bit. While fuel prices are expected to remain high by past standards, they should not take enough of consumers' incomes that they will very much curtail travel to all the things to see and do in Virginia. Also, even with high fuel prices, Virginia attractions should continue to benefit from the "fear and hassle of flying" and their close proximity to so much of the nation's population in the Northeast and Midwest. The lower dollar value in relation to European and

Asiatic currencies should bring a lot more foreign travelers to Virginia in the forecast period.

- ▶ **Private education and health care services** will add 5,200 jobs, or 1.4 percent, in CY 2005; 7,700 jobs, or 2.0 percent, in CY 2006; and 5,400 jobs, or 1.4 percent, in CY 2007. Health care, social services, and nursing facilities will expand to meet the needs of an affluent, aging population. Advances in technology today cause the public to expect and demand so much more in the way of health services. These demands will expand even more as health insurance coverage grows. Private education will now be expanding gradually again as the improving economy will lessen the squeeze of the past couple of years on contributions and tuitions.
- ▶ **Finance, insurance, and real estate** is projected to add 4,500 jobs, or 2.4 percent, in CY 2005; 4,200 jobs, or 2.1 percent, in CY 2006; and 2,800 jobs, or 1.4 percent, in CY 2007. Banks, insurance companies, and stock brokers will need to expand to meet the demands of a growing market. Capital One, the nondepository credit card issuer, which is this industry's largest single employer in Virginia, is currently going for quality in its card holders rather than quantity and it is also leaning down an organization that has seen tremendous growth in the past decade. Some of Capital One's call center jobs are being shifted to Nebraska and worldwide and Virginia staff cuts have been announced. So far, Capital One's announcements of its job cuts have been greater than what has actually taken place in Virginia, but this former engine of growth for this industry is not expected to add a lot to the growth numbers over the forecast period. With higher interest rates, there will be much less mortgage refinancing than in the recent past. Rising interest rates will produce a slight damper on real estate sales but "hot" real estate markets in Northern Virginia, in most other metro areas, and at resorts are likely to continue.
- ▶ **Total government** employment should gain 4,500 jobs, or 0.7 percent, in CY 2005; 2,000 jobs, or 0.3 percent, in CY 2006; and 1,600 jobs, or 0.2 percent, in CY 2007. Federal government civilian employment is forecast to add 500 jobs, or 0.4 percent, in CY 2005 then be basically neutral after that with only a 100, or 0.1 percent, rise in CY 2007. Virginia federal government civilian employment

is unlikely to see much in the way of budget cuts because so much of the federal payroll in Virginia is involved in defense and homeland security. With tax revenues again flowing into state and local governments, agencies will at least be able to fill strategic vacancies caused by turnover and attrition and to make necessary repairs to the infrastructure. Most employment gains will be in the education field to accommodate a growing school population.

- **Other, or miscellaneous, services** should grow by 2,900 jobs, or 1.6 percent, in CY 2005; 2,600 jobs, or 1.4 percent, in CY 2006; and 2,700 jobs, or 1.4 percent, in CY 2007. These traditional service providers, like barber shops, beauty parlors, and other personal services, repair shops, and nonprofit and charity organizations (subgroups that originally made up services under the SIC codes) should prosper with an expanding economy. Charities should see slightly better donations with rising incomes.
- The relatively new **information** sector should see positive employment for the first time since its creation in CY 2001. Employment growth should be 1,600 jobs, or 1.6 percent, in CY 2005; 2,000 jobs, or 1.9 percent, in CY 2006; and 1,400 jobs, or 1.3 percent, in CY 2007. Newspapers and other media should gradually expand to meet growing demand. The telecoms should see slightly positive job growth for the first time in several years, but competition will remain stiff and there likely will remain a lot of shuffling and regrouping within this industry. The Nextel/Sprint merger may also affect employment.
- **Transportation, warehousing, and utilities** is expected to see overall job growth of 900 jobs, or 0.7 percent, in CY 2005; 600 jobs, or 0.5 percent, in CY 2006; and 400 jobs, or 0.4 percent, in CY 2007. Trucking, warehousing, shipping, and the ports will be expanding with the economy. Airlines still remain one of the biggest concerns in the economy and especially in Virginia. In the post-September 11, 2001, environment, the traditional air carriers have been battered by declining passenger volumes, rising labor and security costs, rising fuel prices, and cutthroat competition from start-up “no frills” cut-rate air carriers that have a much lower cost operating base. Unfortunately, much of Virginia’s sizeable airline employment base is still centered in the traditional carriers that currently have the greatest financial



difficulties. Probably the biggest risk to the forecast is that one or more of these traditional carriers might expire, dumping large numbers of flight crews, station and counter attendants, and administrative personnel into the ranks of the unemployed. Many of these, especially the flight crews, would be very difficult to place because many are not experienced on the types of aircraft flown by the expanding cut-rate air carriers and their salaries are much higher than the market is paying today. This would be a major problem in an otherwise boomy Northern Virginia where many of these people are based. Also, since the cut-rate airlines that are prospering today already have landing slots at the large Washington area Virginia airports, they would be unlikely to immediately pick up all the gates now leased by the financially troubled traditional air carriers and these airports would lose significant gate rental revenues.

- **Natural resources and mining** is expected to add 300 jobs, or 2.4 percent, in CY 2005 as oil prices remain above \$40 per barrel, but then revert to slight declines of 100 jobs, or 0.9 percent, in CY 2006; and 100 jobs, or 0.9 percent, in CY 2007. On the plus side, utilities use more coal when oil prices are high and the mines are having to recruit replacements for an aging workforce. On the down side, Virginia coal seams are becoming more difficult to extract economically.
- **Manufacturing** is the only major Virginia industry group that is expected to see slight net employment losses throughout the forecast period, being down 2,100 jobs, or 0.7 percent, in CY 2005; 600 jobs, or 0.2 percent, in CY 2006; and 700 jobs, or 0.3 percent, in CY 2007. The job losses will all be in nondurable goods, which will be off 2,500, or 1.9 percent, in CY 2005; 1,200, or 1.0 percent, in CY 2006; and 1,200, or 1.0 percent, in CY 2007. The textile mills, which

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employed over 40,000 workers in Virginia in the 1970s, will continue to be the biggest single industry job loser, dropping from 12,600 in CY 2004 to 11,300 by CY 2007. Textile mill losses are expected to be 700, or 5.4 percent, in CY 2005; 400, or 3.1 percent, in CY 2006; and 300, or 2.4 percent, in CY 2007 as more mills move offshore. Durable goods manufacturing is expected to be slightly positive, adding 400 jobs, or 0.3 percent, in CY 2005; 700 jobs, or 0.4 percent, in CY 2006; and 500 jobs, or 0.3 percent, in CY 2007. The durable goods subsectors most likely to see small gains in the forecast period are vehicle parts, computer hardware, machinery, and shipbuilding.

Unemployment although improving to 3.5 percent in CY 2004 is, according to the forecast, not expected to go lower, remaining at 3.5 percent in CY 2005 then ticking upward slightly to 3.6 percent in both CY 2006 and CY 2007. Also, the U.S. Bureau of Labor Statistics (BLS) has had the problem since the CY 2001 recession that unemployment for all the states done separately does not add up to the national level. To fix this problem, BLS is mandating with the 2005 benchmark revisions that all the states' jobless rates be adjusted upward so that the states will once again add to the nation. The upward adjustment varies from state to state. As the Virginia Employment Commission understands it now, Virginia will get a smaller upward adjustment than just about any other state. After the revisions and adjustments, the projected Virginia unemployment rates would likely be 3.7 percent for CY 2004 and CY 2005 and 3.8 percent for CY 2006 and CY 2007. It is the Virginia Employment Commission's understanding that the upward adjustments to unemployment in states nationwide may make Virginia have about the lowest jobless rate in the country. The few states that sometimes are lower than Virginia in the upper Midwest and New England are supposed to get substantial upward adjustments in their unemployment levels, thus making Virginia about the lowest state.

Virginia again will be adding jobs at a fair clip during the forecast period. That is why there will be a small uptick in the jobless rate by CY 2006. With Virginia still having a substantially lower unemployment rate than the nation (the U.S. jobless rate is not expected to drop below 5.3 percent during the forecast period) and likely continuing to have the lowest jobless level of the larger states with numbers of advanced technology jobs being added, Virginia should attract many highly skilled people looking for work, or hoping to advance in the technology

fields. While there will be lots of good jobs available in Virginia and many of the jobseekers will quickly be hired, during the time they are performing their job search, they will cause the Virginia unemployment rate to rise slightly. Also natural growth from a large number of entrants to the labor force from the "baby boom echo" generation will keep the jobless rate up. If major air carrier failures occur, they could also add slightly to Virginia's unemployment rate. Some economists feel the labor force functions more efficiently with about 4 percent unemployment than at the labor shortage levels experienced in CY 1999 and CY 2000. Of course, the projected jobless level for Virginia for the forecast period is still well below the 5.0 percent level considered to be "full employment."

Regional forecasts

- ▶ **Northern Virginia** has already re-emerged as Virginia's job growth leader as it was for much of the 1980s and 1990s. Job gains up to 30,000, or 2.3 percent, per year are still expected with Northern Virginia accounting for about one half of the statewide job growth. Professional and business services is expected to account for a forecast one-third of Northern Virginia's gain. Part of this job growth is coming from highly skilled new entrepreneurs laid off during the CY 2001 and CY 2002 downturn who have formed their own specialty consulting firms and are now hiring workers and competing for contracts. Developers and builders will still see boom times and needs for commercial real estate will continue



to increase. The telecoms now appear to be turning the corner and shortly will be expanding although there will be much competition and reshuffling in this industry. The Nextel/Sprint merger could impact employment in this region. Both the professional and business services and the telecoms will be doing much contracting with the federal government, which itself will see slight expansion, especially in the homeland security and defense areas. All of these businesses will have to find more office space to house new workers. Financial services, health care, and retail trade will be expanding to meet the needs of a growing high-income population. Transportation employment should see trucking gains offsetting airline losses. Another significant terrorist attack on the nation's capital would impact this area. The failure of one or more traditional air carriers could substantially reduce transportation employment levels and the loss of gate rentals would impact the economies around the big Washington area airports.

The Northern Virginia **unemployment** rate is expected to be around 2 percent with new people coming to this booming area to seek work keeping it from dropping even lower. The failure of one or more of this area's traditional air carriers would likely add several tenths of a percentage point to the region's unemployment rate.

- ▶ The very stable **Norfolk-Virginia Beach-Newport News, Virginia/North Carolina** area should continue to see job gains in the range of 7,000 to 10,000 jobs per year, or 1 to 1.5 percent. The area benefits from supplying the war efforts, but a return of the troops would boost local retail activities. The defense, security, and various other federal service contractors should see some job gains. Tourism should expand with the improving economy and moderating gasoline prices and activities in building up to the 400th anniversary of Jamestown in CY 2007. Preparations for the Jamestown celebration should also give a boost to builders. The improving national economy is helping the ports.

The **unemployment** rate should hold at four percent, which with the perpetual turnover in military dependents, is "full employment" for this area.

- ▶ **Richmond-Petersburg** should see job gains of 8,000 per year for 1.5 percent growth. Private education and health care should continue to lead

in the number of new jobs added. Professional and business services, finance, and trade should also be hiring. With less revenue problems, state and local governments should do some limited staffing. This area also should benefit from the upcoming Jamestown celebration activities. Richmond desperately wants a cut-rate air carrier and that could happen in the forecast period. Capital One remains something of a question mark.

The **unemployment** rate should be just below 4 percent.



- ▶ **Roanoke** should see job growth of about 2,000 jobs, or 1.5 percent. The Roanoke area should see gradual improvement in health care, business services, and trade as the economy strengthens.

The **unemployment** rate should be just below 3 percent.

- ▶ **Lynchburg** should see positive job growth around 1 percent with private education and health care leading the way.

The **unemployment** rate should be 3.5 to 4 percent.

- ▶ **Charlottesville** should see gradual growth in university- and hospital-related activities, trade, professional and business services, leisure and hospitality, and even manufacturing.

The **unemployment** rate should remain one of the lowest in the nation, at around 2 percent .

- ▶ **Danville** should see further growth in its non-manufacturing service-related industries, but its old-line manufacturers are still vulnerable. The area's one remaining tobacco processor has announced it will not operate after the 2004 – 2005 season.

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The **unemployment** rate will likely continue in the 6 to 8 percent range because of the manufacturing vulnerability.

- **Bristol, Virginia**, should see some trade, services, and leisure and hospitality growth. Manufacturing may have some vulnerability in this area also.

The **unemployment** rate should average between 4 and 6 percent because of the factory vulnerability.

- The new **Blacksburg** metropolitan area should continue to benefit from its two large university populations and the support industries that go along with them. Also, the technology industries located around Virginia Tech should continue to prosper.

The **unemployment** rate should be in the 3 percent range.

- The new **Harrisonburg** metropolitan area should continue to benefit from the large James Madison University population and services necessary to sustain it. There were layoffs late in CY 2004 from the poultry industry, but these problems now seem to be resolved.

The **unemployment** rate should be in the 2 percent range.



- The new **Winchester** metropolitan area is to some extent influenced by the larger nearby Northern Virginia metropolitan area and has transformed from a manufacturing-dominated economy to a bedroom-services type of economy.

Northern Virginia's prosperity also rubs off on this area and should continue to do so.

The **unemployment** rate should be in the 2 percent range.

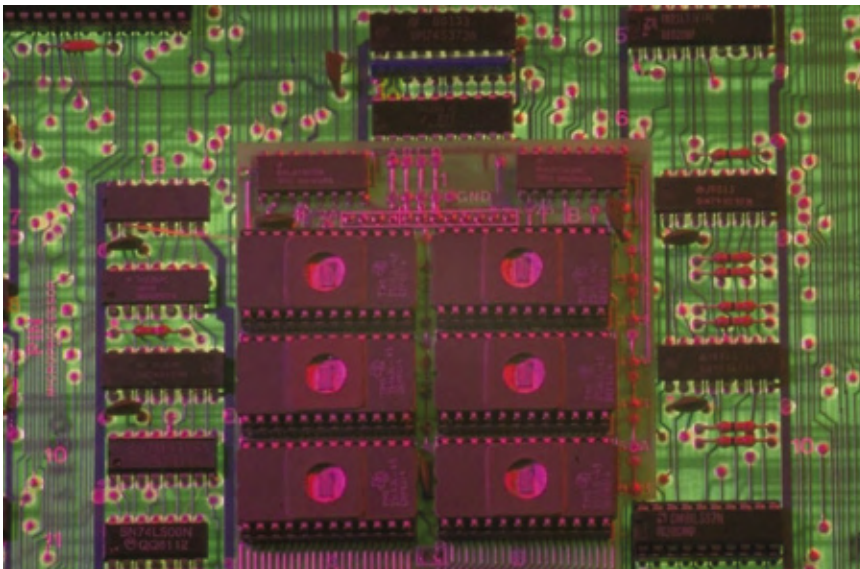
- The non-metropolitan **Balance of the State** should continue to present a diversified and mixed picture. Generally, the more services-oriented upper half of the state should see more job growth and do better than the lower half factory-oriented part. The **Shenandoah Valley, eastern slopes of the Blue Ridge Mountains, Middle Peninsula, Northern Neck, and Eastern Shore** should generally see low unemployment rates aside from historic seasonal patterns in the Northern Neck and Eastern Shore. The large and prosperous Northern Virginia metropolitan area now exerts some influence over the entire upper part of Virginia. The Middle Peninsula and Northern Neck could see good job growth as their economies become more services oriented like their urban neighbors.

Employment should be stable in the **Allegheny-Covington** highlands. Far **Southwest** Virginia should continue to see unemployment in the 4 to 5 percent range. The **Emporia-Greenville** area will gradually recover from CY 2003 plant closings with state institution employment providing a solid base for the local economy. The **western Southside** and **Piedmont** communities along the North Carolina border that have suffered much from mill and plant closings should see gradual improvement as economic developers valiantly try to bring in new niche employers, but this region likely will have the state's highest unemployment during much of the forecast period.

Program Year Forecast

The state's **civilian labor force** should grow by 44,100, or 1.1 percent, in Program Year* (PY) 2005 to 3,906,100 and increase by 45,200, or 1.2 percent, to 3,951,400 in PY 2006.

Total employment, on a place-of-residence basis, will increase 41,700, or 1.1 percent, for a total of 3,767,300 in PY 2005. In PY 2006 the total employment gain will be 43,400, or 1.2 percent, for a total of 3,810,700.



Unemployment, expressed in the number of jobless workers, is expected to increase 2,300, or 1.7 percent, to 138,900 in PY 2005. For PY 2006, the number of jobless will rise 1,800, or 1.3 percent, to 140,700. These increases in the jobless rate are actually positive signs and will result from news of the many high-tech job opportunities here and from Virginia having such **low** unemployment compared to just about everywhere else in the U.S. Workers, especially highly trained technology workers, will be enticed here to apply for all the job opportunities in their fields. While they are conducting their brief job searches, they will show up as unemployed. Also, Virginia's labor force will be experiencing natural growth caused by the higher number of mid-1980's births. A major airline failure, or airline failures, could also cause slightly more unemployment in Virginia.

The **unemployment rate** average in the state will gradually creep up for the above reasons, being 3.5 percent in CY 2004, 3.5 percent in CY 2005, 3.6 percent in CY 2006, and 3.6 percent in CY 2007. On a program year basis, the jobless rate will increase from 3.5 percent in PY 2004 to 3.6 percent in PY 2005 and 3.6 percent in PY 2006. This rise in unemployment will result from new workers from both inside and outside the Commonwealth trying to take advantage of the good job opportunities available here.

Assuming the U.S. Bureau of Labor Statistics (BLS) adjusts unemployment in all the states (see page 28), Virginia's Program Year unemployment rates will likely be 3.7 percent in PY 2004, 3.8 percent in PY 2005, and 3.8 percent in PY 2006.

Nonagricultural employment in PY 2005 on a place-of-work basis should increase 60,200, or 1.7 percent, to average 3,676,800 jobs.

Nonmanufacturing employment will be the source of the job gains, adding 61,100 jobs, or 1.8 percent, for a total of 3,383,900. Professional and business services will be the job growth leader, adding 20,700 jobs, or 3.5 percent, to an employment level of 610,300 for Virginia's largest single private industry category under the NAICS classification system. Computer software producers will be providing the software businesses' need to expand, engineers and architects will be trying to accommodate the increasing building demand, and consulting firms will be doing projects for both federal and private clients. Northern Virginia will see the largest share of this growth,

* The various federally funded programs are on the Program Year cycle that runs from July to June. For example, PY 2005 runs from July 2005 to June 2006.

Program Year Forecast

but other metropolitan and nonmetropolitan areas will also share in the increase. Construction employment will expand 9,900, or 4.2 percent, to 246,300 as builders are trying to meet the expanding need for commercial spaces and make ready for the CY 2007 400th anniversary of Jamestown. Private education and health care continues to expand, hiring 6,700, or 1.8 percent, more workers for a total of 385,300. The leisure and hospitality industry now



seems fully recovered from the twin blows to business caused by the September 11, 2001, terrorist attacks and the October 2002 sniper incidents and is expected to add 6,000 jobs, or 1.9 percent, for a total of 314,300. Trade employment should grow 4,800 jobs, or 0.9 percent, to 543,900 with the expanding economy. Financial services will be augmented 4,700 jobs, or 2.4 percent, to 199,500 as bankers, investment brokers, insurance companies, and real estate agents have a good year. Miscellaneous services will grow by 2,700 jobs, or 1.4 percent, to 190,400. There will be slightly better times for information with the addition of 2,400 jobs, or 2.4 percent, to 103,400. Total government employment should increase 2,300, or 0.3 percent, to 654,100 as better revenue resources are available to state and local governments. Transportation, warehousing, and utilities, still held back by the airlines, should add 1,000 jobs, or 0.8 percent, to 119,900. Natural resources and mining will be unchanged at 10,600.

The long-suffering **manufacturing** industries will see a small further drop of 900 jobs, or 0.3 percent, in PY 2005 to average 292,900, but this year's decline is projected to be less than in the recent past. Nondurable goods, down 1,600 jobs, or 1.2 percent, to 128,500, will be responsible for much of the loss as traditional manufacturers in textiles and apparel continue to close operations in the U.S. Durable goods manufacturing is expected to add 700 jobs, or 0.4 percent, for a total of 164,400 because of a pick-up in demand in other durables for vehicle parts, computer hardware, machinery, and shipbuilding.

Nonagricultural employment in PY 2006 should see growth of 45,600 jobs, or 1.2 percent, to 3,722,400. Again all of the increase will be in **nonmanufacturing**, which rises 46,200 jobs, or 1.4 percent, to 3,430,000. Professional and business services will again lead the expansion with increments of 16,400 jobs, or 2.7 percent, to 626,600. Private education and health care will have the second-best growth, being up 7,000 jobs, or 1.8 percent, to 392,300. Construction will add 5,400 jobs, or 2.2 percent, for a total of 251,700 as financing costs rise. Trade employment will add 4,100 jobs, or 0.7 percent, to a level of 547,900. Leisure and hospitality will still be growing with 3,600 jobs for a 1.1 percent gain to 323,900. The financial services group will add 3,600 jobs, or 1.8 percent, to a level of 203,100. Miscellaneous services will grow 2,600 jobs, or 1.3 percent, to 192,900; total government will advance 1,800 jobs, or 0.3 percent, to 655,900; and information will add 1,500 jobs, or 1.4 percent, to 104,900. Transportation, warehousing, and utilities, still held back by the airlines, will be 400 jobs, or 0.3 percent, higher at 120,300. Natural resources and mining at 10,500 will be the only nonmanufacturing industry to see a decline, being down 100, or 0.9 percent.

Manufacturing, at 292,300, will still lose jobs in PY 2006, being down 500, or 0.2 percent. Durable goods will provide a gain of 600 jobs, or 0.5 percent, to 165,000. Electronic equipment, industrial machinery, and shipbuilding will provide much of the durable goods increase. These gains will be canceled by losses of 1,100 jobs, or 0.9 percent, in nondurable goods to a level of 127,400, as the long-run decline in these industries, especially textiles, down 300, or 2.6 percent, continues.

Charts and Tables

Chart 1A • Virginia Employment – Major Industries

Program Years 2005 and 2006

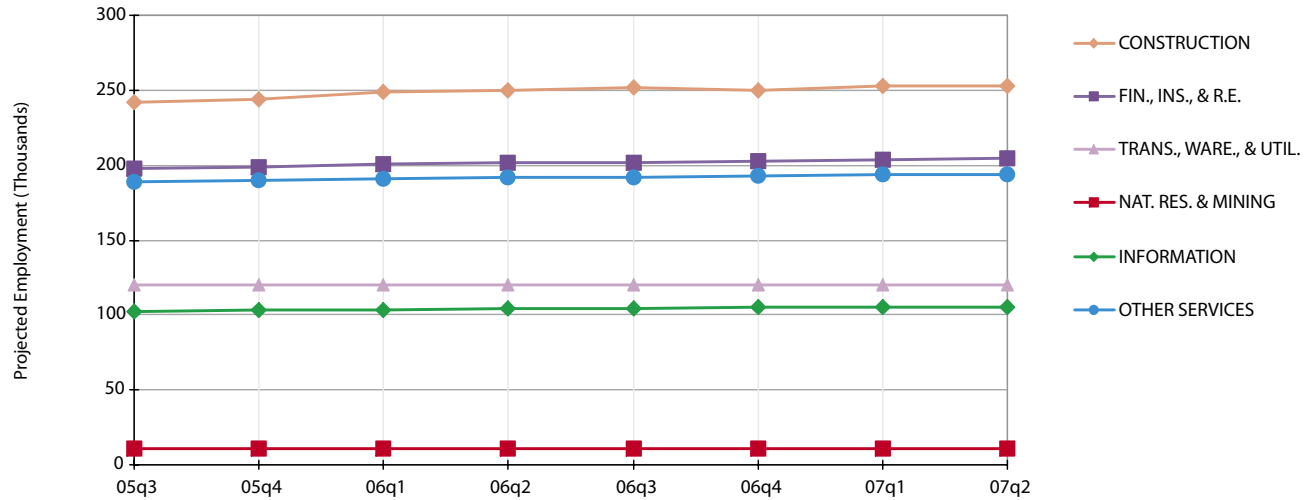


Chart 1B • Virginia Employment – Major Industries

Program Years 2005 and 2006

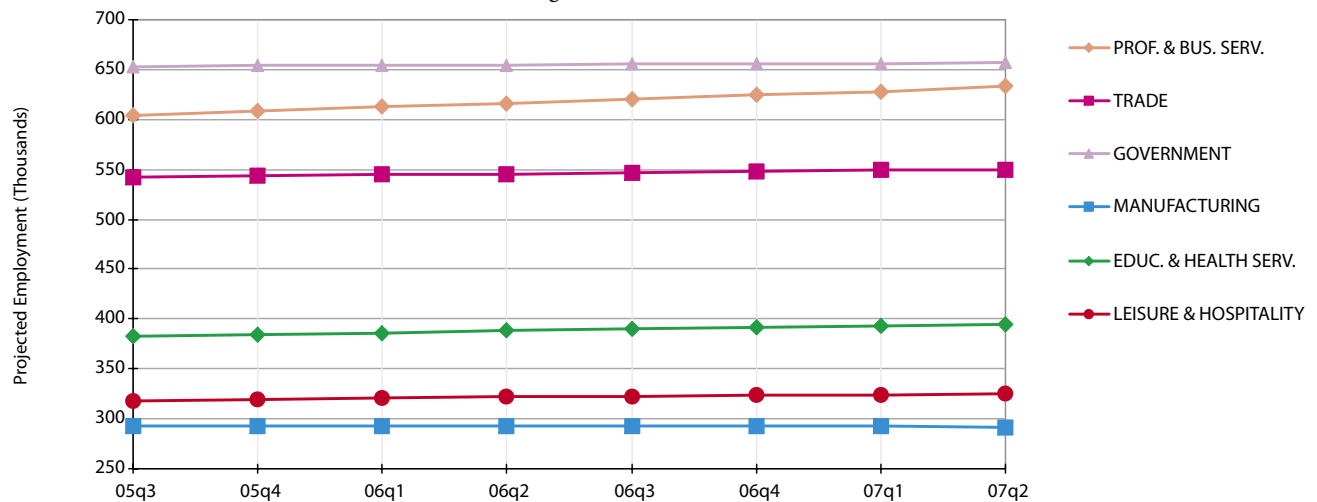
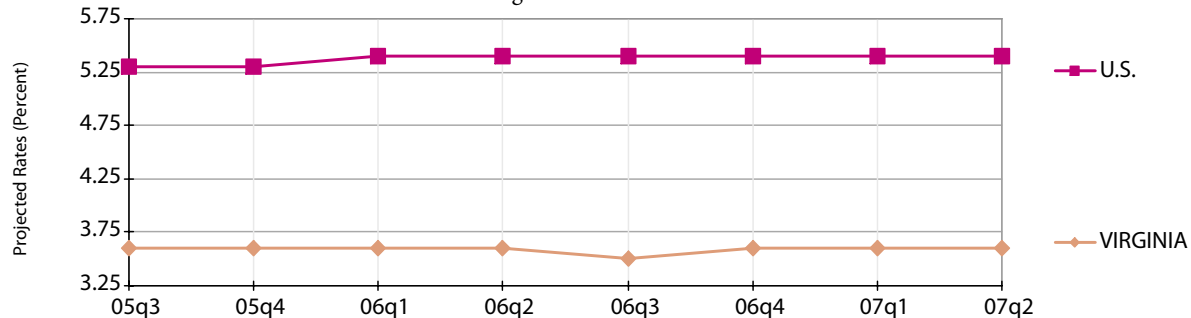


Chart 2 • Unemployment Rates – Virginia and United States

Program Years 2005 and 2006



Charts and Tables

Table 1 • Virginia Labor Force and Employment Projections – Calendar Year
(Numbers in Thousands)

| | CY 2004* | CY 2005 | CY 2006 | CY 2007 | CY 2004 to CY 2005 | | CY 2005 to CY 2006 | | CY 2006 to CY 2007 | |
|--|----------|---------|---------|---------|--------------------|----------|--------------------|----------|--------------------|----------|
| | | | | | Change | % Change | Change | % Change | Change | % Change |
| Labor Force Data (Place of Residence) | | | | | | | | | | |
| Labor Force | 3845.0 | 3883.7 | 3928.9 | 3973.1 | 38.7 | 1.0 | 45.2 | 1.2 | 44.2 | 1.1 |
| Resident Employment | 3710.1 | 3745.9 | 3789.4 | 3831.1 | 35.8 | 1.0 | 43.5 | 1.2 | 41.7 | 1.1 |
| Unemployed | 134.9 | 137.8 | 139.5 | 142.0 | 2.8 | 2.1 | 1.7 | 1.2 | 2.6 | 1.8 |
| Unemployment Rate (%) | 3.5 | 3.5 | 3.6 | 3.6 | 0.0 | - | 0.1 | - | 0.0 | - |
| Establishment Data (Place of Work) | | | | | | | | | | |
| Total Nonag. Wage and Salary | 3585.0 | 3647.5 | 3701.1 | 3743.8 | 62.5 | 1.7 | 53.6 | 1.5 | 42.7 | 1.2 |
| Total Manufacturing | 295.3 | 293.2 | 292.6 | 291.9 | -2.1 | -0.7 | -0.6 | -0.2 | -0.7 | -0.3 |
| Durables | 163.7 | 164.1 | 164.7 | 165.2 | 0.4 | 0.3 | 0.7 | 0.4 | 0.5 | 0.3 |
| Transportation Equipment | 39.3 | 38.9 | 38.4 | 37.9 | -0.4 | -1.1 | -0.5 | -1.3 | -0.5 | -1.3 |
| Furniture and Related Products | 19.2 | 19.0 | 19.1 | 19.1 | -0.2 | -1.3 | 0.1 | 0.7 | 0.0 | 0.0 |
| Other Durables | 105.1 | 106.2 | 107.3 | 108.3 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 |
| Nondurables | 131.7 | 129.1 | 127.9 | 126.7 | -2.5 | -1.9 | -1.2 | -1.0 | -1.2 | -1.0 |
| Textile Mills | 12.6 | 11.9 | 11.5 | 11.3 | -0.7 | -5.4 | -0.4 | -3.1 | -0.3 | -2.4 |
| Other Nondurables | 119.1 | 117.2 | 116.4 | 115.4 | -1.9 | -1.6 | -0.9 | -0.7 | -1.0 | -0.8 |
| Total Nonmanufacturing | 3289.7 | 3354.3 | 3408.5 | 3451.9 | 64.6 | 2.0 | 54.2 | 1.6 | 43.4 | 1.3 |
| Natural Resources and Mining | 10.4 | 10.7 | 10.6 | 10.5 | 0.3 | 2.4 | -0.1 | -0.9 | -0.1 | -0.9 |
| Construction | 231.3 | 241.3 | 249.8 | 253.2 | 10.0 | 4.3 | 8.5 | 3.5 | 3.3 | 1.3 |
| Trade | 535.5 | 541.6 | 545.8 | 550.2 | 6.2 | 1.2 | 4.2 | 0.8 | 4.4 | 0.8 |
| Wholesale Trade | 115.0 | 116.4 | 117.4 | 118.4 | 1.4 | 1.2 | 1.0 | 0.9 | 0.9 | 0.8 |
| Retail Trade | 420.5 | 425.2 | 428.4 | 431.9 | 4.7 | 1.1 | 3.2 | 0.7 | 3.5 | 0.8 |
| Transportation, Warehousing, and Utilities | 118.6 | 119.5 | 120.1 | 120.5 | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 |
| Information | 100.6 | 102.2 | 104.2 | 105.6 | 1.6 | 1.6 | 2.0 | 1.9 | 1.4 | 1.3 |
| Finance, Insurance, and Real Estate | 192.7 | 197.2 | 201.4 | 204.2 | 4.5 | 2.4 | 4.2 | 2.1 | 2.8 | 1.4 |
| Professional and Business Services | 577.5 | 600.7 | 618.4 | 636.5 | 23.2 | 4.0 | 17.7 | 3.0 | 18.1 | 2.9 |
| Prof., Scientific, and Technical Services | 308.2 | 322.0 | 332.8 | 344.5 | 13.8 | 4.5 | 10.8 | 3.3 | 11.8 | 3.5 |
| Mgmt. of Companies and Enterprises | 69.7 | 72.1 | 73.7 | 74.4 | 2.4 | 3.4 | 1.6 | 2.3 | 0.7 | 0.9 |
| Adm. and Support and Waste Mgmt. | 199.6 | 206.6 | 211.9 | 217.6 | 7.0 | 3.5 | 5.3 | 2.6 | 5.7 | 2.7 |
| Educational and Health Services | 376.3 | 381.5 | 389.2 | 394.6 | 5.2 | 1.4 | 7.7 | 2.0 | 5.4 | 1.4 |
| Educational Services | 72.3 | 72.9 | 74.7 | 75.8 | 0.6 | 0.8 | 1.8 | 2.4 | 1.1 | 1.5 |
| Health Care and Social Assistance | 304.0 | 308.6 | 314.5 | 318.8 | 4.6 | 1.5 | 5.9 | 1.9 | 4.3 | 1.4 |
| Leisure and Hospitality | 312.2 | 317.5 | 322.2 | 325.6 | 5.3 | 1.7 | 4.7 | 1.5 | 3.4 | 1.0 |
| Arts, Entertainment, and Recreation | 38.6 | 38.8 | 39.3 | 39.8 | 0.2 | 0.4 | 0.5 | 1.3 | 0.5 | 1.4 |
| Accommodation and Food Services | 273.6 | 278.8 | 282.9 | 285.8 | 5.2 | 1.9 | 4.2 | 1.5 | 2.8 | 1.0 |
| Other Services | 186.1 | 189.0 | 191.7 | 194.3 | 2.9 | 1.6 | 2.6 | 1.4 | 2.7 | 1.4 |
| Government | 648.5 | 653.0 | 655.1 | 656.7 | 4.5 | 0.7 | 2.0 | 0.3 | 1.6 | 0.2 |
| Federal Government | 149.9 | 150.4 | 150.4 | 150.5 | 0.5 | 0.4 | 0.0 | 0.0 | 0.1 | 0.1 |
| State and Local Government | 498.6 | 502.6 | 504.7 | 506.2 | 4.0 | 0.8 | 2.1 | 0.4 | 1.5 | 0.3 |

*Forecast Period begins with third quarter of CY 2004.

NOTE: Detail may not add to totals due to rounding.

Table 2 • Virginia Labor Force and Employment Projections – WIA Program Year
(Numbers in Thousands)

| | PY 2004* | PY 2005 | PY 2006 | PY 2004 to PY 2005 | | PY 2005 to PY 2006 | |
|--|----------|---------|---------|--------------------|----------|--------------------|----------|
| | | | | Change | % Change | Change | % Change |
| Labor Force Data (Place of Residence) | | | | | | | |
| Labor Force | 3862.1 | 3906.1 | 3951.4 | 44.1 | 1.1 | 45.2 | 1.2 |
| Resident Employment | 3725.6 | 3767.3 | 3810.7 | 41.7 | 1.1 | 43.4 | 1.2 |
| Unemployed | 136.5 | 138.9 | 140.7 | 2.3 | 1.7 | 1.8 | 1.3 |
| Unemployment Rate (%) | 3.5 | 3.6 | 3.6 | 0.1 | - | 0.0 | - |
| Establishment Data (Place of Work) | | | | | | | |
| Total Nonag. Wage and Salary | 3616.6 | 3676.8 | 3722.4 | 60.2 | 1.7 | 45.6 | 1.2 |
| Total Manufacturing | 293.8 | 292.9 | 292.3 | -0.9 | -0.3 | -0.5 | -0.2 |
| Durables | 163.7 | 164.4 | 165.0 | 0.7 | 0.4 | 0.6 | 0.3 |
| Transportation Equipment | 39.1 | 38.6 | 38.1 | -0.4 | -1.1 | -0.5 | -1.4 |
| Furniture and Related Products | 18.9 | 19.1 | 19.1 | 0.1 | 0.6 | 0.0 | 0.2 |
| Other Durables | 105.7 | 106.7 | 107.8 | 1.1 | 1.0 | 1.0 | 1.0 |
| Nondurables | 130.1 | 128.5 | 127.4 | -1.6 | -1.2 | -1.1 | -0.9 |
| Textile Mills | 12.2 | 11.7 | 11.4 | -0.5 | -3.9 | -0.3 | -2.6 |
| Other Nondurables | 117.9 | 116.7 | 115.9 | -1.1 | -1.0 | -0.8 | -0.7 |
| Total Nonmanufacturing | 3322.8 | 3383.9 | 3430.0 | 61.1 | 1.8 | 46.2 | 1.4 |
| Natural Resources and Mining | 10.6 | 10.6 | 10.5 | 0.0 | -0.3 | -0.1 | -0.9 |
| Construction | 236.4 | 246.3 | 251.7 | 9.9 | 4.2 | 5.4 | 2.2 |
| Trade | 539.1 | 543.9 | 547.9 | 4.8 | 0.9 | 4.1 | 0.7 |
| Wholesale Trade | 115.7 | 116.9 | 117.9 | 1.2 | 1.0 | 1.0 | 0.9 |
| Retail Trade | 423.4 | 427.0 | 430.0 | 3.6 | 0.8 | 3.1 | 0.7 |
| Transportation, Warehousing, and Utilities | 118.9 | 119.9 | 120.3 | 1.0 | 0.8 | 0.4 | 0.3 |
| Information | 101.0 | 103.4 | 104.9 | 2.4 | 2.4 | 1.5 | 1.4 |
| Finance, Insurance, and Real Estate | 194.8 | 199.5 | 203.1 | 4.7 | 2.4 | 3.6 | 1.8 |
| Professional and Business Services | 589.6 | 610.3 | 626.6 | 20.7 | 3.5 | 16.4 | 2.7 |
| Prof., Scientific, and Technical Services | 315.5 | 327.8 | 337.9 | 12.3 | 3.9 | 10.1 | 3.1 |
| Mgmt. of Companies and Enterprises | 70.8 | 73.1 | 74.2 | 2.3 | 3.3 | 1.0 | 1.4 |
| Adm. and Support and Waste Mgmt. | 203.3 | 209.4 | 214.6 | 6.1 | 3.0 | 5.3 | 2.5 |
| Educational and Health Services | 378.6 | 385.3 | 392.3 | 6.7 | 1.8 | 7.0 | 1.8 |
| Educational Services | 72.4 | 73.8 | 75.3 | 1.4 | 1.9 | 1.5 | 2.0 |
| Health Care and Social Assistance | 306.2 | 311.5 | 317.0 | 5.3 | 1.7 | 5.5 | 1.8 |
| Leisure and Hospitality | 314.3 | 320.3 | 323.9 | 6.0 | 1.9 | 3.6 | 1.1 |
| Arts, Entertainment, and Recreation | 38.5 | 39.0 | 39.5 | 0.6 | 1.5 | 0.5 | 1.2 |
| Accommodation and Food Services | 275.8 | 281.3 | 284.4 | 5.4 | 2.0 | 3.1 | 1.1 |
| Other Services | 187.7 | 190.4 | 192.9 | 2.7 | 1.4 | 2.6 | 1.3 |
| Government | 651.8 | 654.1 | 655.9 | 2.3 | 0.3 | 1.8 | 0.3 |
| Federal Government | 150.4 | 150.4 | 150.4 | 0.1 | 0.1 | 0.0 | 0.0 |
| State and Local Government | 501.5 | 503.7 | 505.5 | 2.2 | 0.4 | 1.8 | 0.4 |

*Forecast Period begins with third quarter of CY 2004.

NOTE: Detail may not add to totals due to rounding.

Charts and Tables

Table 3 • Virginia Labor Force Projections by Quarters, 2004:1 – 2007:4*
(Numbers in Thousands)

| | 2004:1 | 2004:2 | 2004:3 | 2004:4 | 2005:1 | 2005:2 | 2005:3 | 2005:4 | 2006:1 | 2006:2 | 2006:3 | 2006:4 | 2007:1 | 2007:2 | 2007:3 | 2007:4 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Labor Force Data (Place of Residence) | | | | | | | | | | | | | | | | |
| Labor Force | 3833.6 | 3844.3 | 3846.0 | 3856.2 | 3867.9 | 3878.3 | 3887.5 | 3901.0 | 3912.9 | 3923.1 | 3934.0 | 3945.7 | 3956.9 | 3969.0 | 3978.6 | 3988.1 |
| Resident Employment | 3699.1 | 3711.0 | 3710.2 | 3720.1 | 3730.9 | 3741.0 | 3749.5 | 3762.2 | 3773.6 | 3783.8 | 3794.7 | 3805.6 | 3815.6 | 3826.9 | 3836.1 | 3845.7 |
| Unemployed | 134.6 | 133.2 | 135.8 | 136.1 | 136.9 | 137.3 | 138.0 | 138.9 | 139.3 | 139.3 | 139.3 | 140.1 | 141.3 | 142.1 | 142.4 | 142.4 |
| Unemployment Rate (%) | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Establishment Data (Place of Work) | | | | | | | | | | | | | | | | |
| Total Nonag. Wage and Salary | 3556.2 | 3582.1 | 3593.8 | 3607.9 | 3625.1 | 3639.5 | 3655.4 | 3669.9 | 3685.0 | 3696.8 | 3708.0 | 3714.7 | 3728.1 | 3738.8 | 3750.3 | 3757.9 |
| Total Manufacturing | 295.7 | 297.4 | 294.4 | 293.9 | 293.6 | 293.2 | 293.1 | 293.0 | 292.8 | 292.7 | 292.6 | 292.5 | 292.3 | 292.0 | 291.8 | 291.5 |
| Durables | 162.4 | 165.0 | 163.6 | 163.6 | 163.7 | 163.9 | 164.2 | 164.4 | 164.5 | 164.6 | 164.9 | 165.0 | 165.0 | 165.2 | 165.3 | 165.5 |
| Transportation Equipment | 38.7 | 40.1 | 39.3 | 39.1 | 39.0 | 38.9 | 38.9 | 38.7 | 38.6 | 38.4 | 38.3 | 38.2 | 38.0 | 37.9 | 37.8 | 37.7 |
| Furniture and Related Products | 19.6 | 19.3 | 19.0 | 18.9 | 18.9 | 19.0 | 19.0 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 |
| Other Durables | 104.1 | 105.6 | 105.3 | 105.5 | 105.8 | 106.0 | 106.4 | 106.6 | 106.9 | 107.1 | 107.4 | 107.7 | 107.9 | 108.1 | 108.4 | 108.6 |
| Nondurables | 133.2 | 132.4 | 130.8 | 130.3 | 129.8 | 129.3 | 128.9 | 128.6 | 128.3 | 128.0 | 127.8 | 127.5 | 127.2 | 126.9 | 126.5 | 126.0 |
| Textile Mills | 12.9 | 12.8 | 12.4 | 12.2 | 12.1 | 12.0 | 11.9 | 11.8 | 11.7 | 11.6 | 11.5 | 11.4 | 11.4 | 11.3 | 11.2 | 11.2 |
| Other Nondurables | 120.3 | 119.5 | 118.4 | 118.1 | 117.7 | 117.3 | 117.0 | 116.8 | 116.6 | 116.5 | 116.3 | 116.1 | 115.9 | 115.6 | 115.3 | 114.9 |
| Total Nonmanufacturing | 3260.5 | 3284.7 | 3299.4 | 3313.9 | 3331.5 | 3346.3 | 3362.3 | 3376.9 | 3392.2 | 3404.1 | 3415.4 | 3422.2 | 3435.8 | 3446.8 | 3458.5 | 3466.4 |
| Natural Resources and Mining | 10.1 | 10.3 | 10.6 | 10.6 | 10.6 | 10.7 | 10.7 | 10.6 | 10.6 | 10.6 | 10.6 | 10.5 | 10.5 | 10.5 | 10.5 | 10.4 |
| Construction | 228.7 | 229.6 | 232.5 | 234.4 | 239.0 | 239.7 | 242.4 | 244.4 | 248.4 | 249.9 | 251.6 | 249.4 | 252.8 | 252.9 | 254.6 | 252.5 |
| Trade | 530.0 | 536.2 | 537.2 | 538.4 | 539.9 | 540.9 | 542.2 | 543.4 | 544.4 | 545.4 | 546.1 | 547.3 | 548.8 | 549.6 | 550.7 | 551.8 |
| Wholesale Trade | 114.5 | 114.8 | 115.2 | 115.5 | 116.0 | 116.3 | 116.5 | 116.8 | 117.0 | 117.3 | 117.6 | 117.8 | 118.0 | 118.2 | 118.5 | 118.7 |
| Retail Trade | 415.6 | 421.3 | 422.1 | 422.9 | 423.9 | 424.7 | 425.7 | 426.6 | 427.3 | 428.2 | 428.5 | 429.4 | 430.8 | 431.3 | 432.2 | 433.1 |
| Transportation, Warehousing, and Utilities | 118.4 | 118.7 | 118.5 | 118.8 | 119.1 | 119.3 | 119.6 | 119.9 | 120.0 | 120.0 | 120.1 | 120.2 | 120.3 | 120.4 | 120.6 | 120.8 |
| Information | 100.8 | 100.7 | 100.3 | 100.7 | 101.2 | 101.7 | 102.6 | 103.3 | 103.7 | 104.0 | 104.3 | 104.8 | 105.0 | 105.4 | 105.8 | 106.1 |
| Finance, Insurance, and Real Estate | 191.6 | 192.3 | 193.0 | 193.9 | 195.5 | 196.8 | 197.8 | 198.9 | 200.2 | 201.2 | 202.0 | 202.2 | 203.6 | 204.5 | 204.2 | 204.5 |
| Professional and Business Services | 568.0 | 574.6 | 580.7 | 586.9 | 592.4 | 598.4 | 603.6 | 608.4 | 612.8 | 616.3 | 620.4 | 624.2 | 628.3 | 633.7 | 639.6 | 644.6 |
| Prof., Scientific, and Technical Services | 301.0 | 307.3 | 310.5 | 314.0 | 317.0 | 320.5 | 323.8 | 326.6 | 329.2 | 331.5 | 334.0 | 336.3 | 338.6 | 342.6 | 346.5 | 350.3 |
| Mgmt. of Companies and Enterprises | 69.5 | 69.1 | 69.8 | 70.5 | 71.1 | 71.8 | 72.5 | 73.0 | 73.3 | 73.7 | 73.9 | 74.1 | 74.3 | 74.4 | 74.5 | 74.6 |
| Adm. and Support and Waste Mgmt. | 197.4 | 198.2 | 200.4 | 202.4 | 204.3 | 206.0 | 207.3 | 208.8 | 210.3 | 211.1 | 212.6 | 213.7 | 215.4 | 216.7 | 218.6 | 219.7 |
| Educational and Health Services | 373.3 | 377.1 | 377.2 | 377.7 | 378.8 | 380.6 | 382.3 | 384.3 | 386.2 | 388.4 | 390.4 | 391.9 | 392.8 | 394.1 | 395.1 | 396.4 |
| Educational Services | 72.3 | 72.5 | 72.2 | 72.3 | 72.5 | 72.7 | 73.0 | 73.5 | 74.1 | 74.6 | 74.9 | 75.1 | 75.4 | 75.7 | 75.8 | 76.2 |
| Health Care and Social Assistance | 301.0 | 304.6 | 305.0 | 305.4 | 306.4 | 308.0 | 309.3 | 310.8 | 312.1 | 313.8 | 315.5 | 316.8 | 317.4 | 318.4 | 319.3 | 320.2 |
| Leisure and Hospitality | 310.9 | 312.2 | 312.3 | 313.3 | 314.8 | 316.8 | 318.5 | 319.9 | 320.9 | 321.8 | 322.6 | 323.4 | 324.4 | 325.2 | 325.9 | 326.8 |
| Arts, Entertainment, and Recreation | 39.1 | 38.6 | 38.3 | 38.4 | 38.5 | 38.7 | 38.9 | 39.0 | 39.1 | 39.2 | 39.3 | 39.4 | 39.6 | 39.7 | 39.9 | 40.0 |
| Accommodation and Food Services | 271.8 | 273.5 | 274.0 | 275.0 | 276.3 | 278.1 | 279.7 | 280.9 | 281.9 | 282.6 | 283.3 | 284.0 | 284.8 | 285.5 | 286.1 | 286.8 |
| Other Services | 184.9 | 185.3 | 186.6 | 187.5 | 188.1 | 188.6 | 189.3 | 190.0 | 190.7 | 191.5 | 191.8 | 192.6 | 193.3 | 194.1 | 194.7 | 195.2 |
| Government | 643.9 | 647.8 | 650.6 | 651.7 | 652.2 | 652.8 | 653.3 | 653.8 | 654.3 | 654.9 | 655.4 | 655.6 | 656.1 | 656.5 | 656.9 | 657.2 |
| Federal Government | 149.2 | 149.9 | 150.2 | 150.4 | 150.5 | 150.4 | 150.5 | 150.4 | 150.4 | 150.4 | 150.4 | 150.4 | 150.5 | 150.5 | 150.5 | 150.6 |
| State and Local Government | 494.7 | 497.9 | 500.4 | 501.4 | 501.7 | 502.4 | 502.8 | 503.4 | 503.9 | 504.5 | 505.0 | 505.2 | 505.6 | 506.0 | 506.3 | 506.7 |

*Forecast Period begins with third quarter of CY 2004.

NOTE: Detail may not add to totals due to rounding.

Economic Assumptions
Economic Information Services Division
Virginia Employment Commission

P.O. Box 1358

Richmond, Virginia 23218-1358



The Virginia Employment Commission
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